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“Managing Labour”: Transforming Industrial Relations in China’s Local State-owned Sector

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“Managing Labour”: Transforming Industrial Relations in China’s Local State-owned Sector

Chen Ying

A thesis submitted for the degree of Doctor of Philosophy
University of Bath

Department of Social Policies and Sciences

January 2017

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I dedicate this thesis to the memory of my grandfather, who has believed in a world where one can "hunt in the morning, fish in the afternoon, rear cattle in the evening, criticise philosophy after dinner"...

Abstract

China's achievement of developing a vigorous market economy is based on Chinese communist party (CCP)'s top-down reform and opening-up policies since 1978. Meanwhile, political reform of the second largest economy in today's world is continuously delayed. Without an agenda of bringing democracy and regulation-making process into workplaces, China's state-owned enterprises were swiftly transformed to be profit-oriented economic entities with managerial supremacy. As an authoritarian regime still run by communist party, China has to negotiate with its own socialist tradition, which entails not only restructuring labour relations in workplaces but its national ideology.

This study explores Chinese Communist Party's (CCP) politics of labour management in China's local state sector. With use of multiple qualitative inquiring techniques, the study selects two state-owned corporations located in Shanghai region as cases, and provides an in-depth analysis on Chinese Communist Party's (CCP) politics of managing labour force formulation as well as re-shaping employment relationship within those transitioning SOEs. The study is expected to illuminate the diversity within and across regions and industrial sectors in China. Also, these case studies suggest that CCP adopts pragmatic approaches over labour managing matters so as to ensure its sovereign influence.

I will argue that the key to understand SOEs' management rebuilding is CCP's governing tradition of co-option and elite selection, which is a prolong legacy that has shaped the party's personnel managing system since revolutionary era. It is also hoped that the findings of my empirical research will lead to theoretical discussion on China's path of industrial relations in future: if such dynamic managerialism in the state sector is able to guarantee further delays of workplace political liberalisation of labour relation, or not.

List of Abbreviations

ACFTU – All-China Federation of Trade Unions

CCP – Chinese Communist Party

ER – Employment relations

HRM – Human resource management

IR – Industrial relations

LGFP - Local Government Financing Platforms

LM - Labour management

LR – Labour relations

MHRSS – Ministry of Human Resources and Social Security

MNC –Multi-national corporations

PM – Personnel management

SASAC - State-owned Assets Supervision and Administration Commission
of the State Council

SOBG – State-owned business groups

SOE – State-owned Enterprises

TVE - Township and village enterprises

Chapter 1 Introduction

1.1 Uncovering “unknown knowns”: motivation, scope and objectives

“There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we now know we don’t know. But there are also unknown unknowns. These are things we do not know we don’t know.”

- Donald Rumsfeld

The former US Secretary of State for Defence made this infamous statement in a Pentagon news briefing on 12 February 2002, concerning the lack of evidence linking the government of Iraq with the supply of weapons of mass destruction to terrorist groups. It was widely ridiculed for its bizarreness among press circles, and has become a popular reference to the Bush administration’s lunacy and hysteria over the imagined threat from Saddam’s regime. However, Rumsfeld’s comment has also received an unexpected appreciation from the philosopher Slavoj Žižek. In his *The Guardian* article (2008), Žižek remarked it as an “amateur philosophising” attempt on theory of knowledge. He also pointed out that the Pentagon’s undeniable fault on Iraq derives from the missing piece in Rumsfeld’s matrix of knowings:

“What he forgot to add was the crucial fourth term: the “unknown knowns”, things we don’t know that we know - which is precisely the Freudian unconscious. If Rumsfeld thought that the main dangers in the confrontation with Iraq were the “unknown unknowns”, the threats from Saddam we did not even suspect, the Abu Ghraib scandal shows where the main dangers actually are in the “unknown knowns”, the disavowed beliefs, suppositions and obscene practices we pretend not to know about, even though they form the background of our public values. To unearth these “unknown knowns” is the task of an intellectual.” (ibid)

Oddly, Rumsfeld’s statement turns out to be an inadvertent tribute to social science epistemology, reminding us of the uncertain and variable nature of knowledge in a flawed but concise manner. Knowledge can be incomplete yet still

useable; sometimes it can even result in enormous impact (For Rumsfeld, this should be referred to “intelligence”). Regarding the “unknown knowns”, these can be seen as a philosopher’s reflection on our uncertain perceptions regarding the empirical world - knowledge could be shaped by the factors that we often overlook or are completely unconscious of, such as value and ideology. In the realm of theory building in social sciences, this form of knowing could be referred to as the tacit and prevalent approaches to the subjects, whereby knowledge of techniques, methods and particular rhetoric are often perceived as a priori constructs. Such rationales can also be embedded in the use of language as well as particular skills and techniques. In general, even reinforced with the widely accepted scientific rationality, our perceptions would still to a large extent be governed by unconscious beliefs and prejudices.

Academic engagement with China’s labour issues is clouded with such “unknown knowns”. In the past decades since China embraced a market economy, the selection of topics in relation to labour settlement changes in China by outside observers has been driven by the clear narratives pertaining to: 1) its rapidly growing labour intensive industries and the popular rhetoric of China’s “world factory” role; and 2) the ever-growing risk of industrial overcapacity and corporate debt in the state sector. Given such trends, the speculation on China has long been concerned with what involvement in global capitalism would mean for the one-party state’s industrial relations in general. Without any agenda for political reform, the Party-state has initiated reforms on almost all aspects of the country. The incremental, top-down, path of reform has attracted scholars from a wide range of disciplinary backgrounds to engage in China’s labour issues. Topics range from discussions on the decline of “old workers” (see Shen, 2006) and the rise of migrant labour forces, to the observations on potential convergence or divergence of personnel management in the emerging organisations with mixed ownership, such as joint-ventures ¹. Researchers have striven to offer meaningful

¹ See Mann (1989) on different mentalities on working hours between local and foreign employees in Beijing Jeep; Taylor (1996) on how foreign managers in JV count on local “labour service companies” to be in charge of the local labour management; and Wang (2004) on divergence in employees’ commitment between SOEs and FIEs.

explanations on China's post-reform labour settlements on the basis of their own disciplinary backgrounds, leaving the literature rather fragmented and incoherent in terms of research focus. The nation's fast pace of socioeconomic change has made the situation even more bewildering. As Warner (2012b) concluded, it is difficult to build a degree of precision when researchers attempt to grasp a "paradigmatic shift" in Chinese management.

The motivation behind this thesis was to address the unresolved confusion about the functioning of the local state sector in Shanghai, a vibrant and highly hybrid economic segment in China's largest city. As one of the most developed regions in China, the state-owned enterprises (SOEs) in Shanghai appear in the form of large-scale state-owned business groups. Both market-oriented practices of human resource management (HRM) and labour configuration driven by the CCP politics have been adopted in those groups. The aim is to undertake an exploratory inquiry to unveil the dynamics of regulation making within these party-controlled workplaces. Rather than tacitly adopting the pervasively accepted norms, such as the widely adopted HRM and other business school rationales, the objective is to build the analysis around the social and institutional factors that have shaped and are continuing to shape, the labour settlement in Shanghai's local state sector. Also, the aim is to transcend the existing debates on the new formation of the working classes in post-reform China by unveiling the complexity of workers' segmentation within these SOBGs, which will expose the diversity of labour, even within a single business group, something that previously has been overlooked. It is anticipated that probing the experiences of those "national champions" will serve as an entry point for understanding the intertwined relationship between CCP's politics and businesses. Furthermore, this thesis has the goal of developing theory beyond the scope of the local sector that can illuminate the underlying social and political forces that have been shaping labour settlements at firm level. In general, the task of this study is to unearth the underlying dynamics of labour rule making within the Party-controlled corporate world. Specifically, the aim is to reveal the subtle meanings of day-to-day management and the administrative practices within these local state-owned business groups (SOBGs), which are often overlooked,

because they are hidden behind the capitalist veneer, when in fact they play pivotal roles in the shaping of labour settlements.

1.2 Exploring SOBGs' labour management: Conceptual approach and research questions

The thesis is set out to conduct an exploratory inquiry into Shanghai's SOBGs. Using extended case study techniques, the research questions are expected to be refined in the process of subsequent case selection (elaborated upon in Chapter 4). In this research, SOBGs's practices in shaping labour rules and personnel management are conceptualised as "labour management". There have been a couple of academic engagements attempting to conceptualise the complex institutional settings in China, namely: Lee's "labour regimes", in her studies on China's decreasing state workplaces and Lüthje and colleagues' "politics or regimes of production" in their typological study on post-reform industrial relations. The concept of "labour management" highlights two realities of SOBGs' labour settlement. Firstly, managerial approaches and mentality are overwhelmingly dominant in these state corporations' labour rulemaking, i.e. there is little evidence in the extant research suggesting that there are any signs of independent voice expression from the labour forces in China's state sector. Secondly, in addition to these groups' highly market-oriented staffing strategies, some of their labour arrangements serve a purpose other than promoting the groups' business interests. Hence, if HRM approaches are applied under the assumption that state-owned entities treat workers in a purely market-oriented manner, the groups' deeper dynamics for managing their highly diverse, segmented workforces will not be brought to light. With this perspective, the question arises: who is actually "managing" "labour" and how.

Guided by abductive reasoning, a form of logical inference, the "extended" case study inquiry (see subsection 4.1.1) starts with a general research question - **who is/are governing the labour management arrangements in Shanghai's local SOBGs? Furthermore, to what extent are such managing approaches shaped**

by the political and institutional factors beyond the boundaries of those groups? The question is further broken down into three empirical sub-questions:

1) What, if any, new deals are being made between labour and management?

What are the labour managing mechanisms deployed in SOBGs?

2) Is the voice mechanism institutionally constituted at the level of workplace? If not, then what kind of force(s) is/are representing workers' voices, and how?

3) How and to what extent does local politics in Shanghai involve the organising of labour managing settlements at the firm level?

With a combined use of qualitative research techniques, it is anticipated that these questions will be addressed through the pilot study. Subsequently, a refined set of research questions will be generated based on these findings.

1.3 Outline of the chapters

After the pilot study, the research was driven in a direction that put more focus on the CCP's governance over labour management within SOBGs. That is, this study brought to the fore the party's multiple roles and flexible approaches in controlling labour managing matters at the different levels, which were deemed as deserving thorough scrutiny. In addition, the ontological understanding of the local SOBGs that contends it the necessity to view these Party-state organisations as supra-organisational institutions rather than corporate bodies with pure business goals is questioned. In general, as the exploratory inquiry proceeds, it serves as a learning process for comprehending what existing genres of academic engagement have unconsciously overlooked due to the limitations of their own theoretical backgrounds and skill-sets. Also, such a reflexive approach helps to invent new language to deliver meaningful narratives about the labour rules making within China's complex institutional settings. The thesis progresses as follows.

Chapter 2 – Literature review

In this literature review chapter, the fragmented condition of the extant writing is discussed, because researchers have been narrowly limited by their own disciplinary backgrounds. I also point out that the knowledge from existing debates regarding China quickly becomes obsolete owing to China's fast pace of economic and institutional change. From the early debates on the "how has China adapted to the world?" to the subsequent "how has China developed its own managing pattern", there has been confusion on how explain precisely the nature of "Chinese management" or the hybrid model of Chinese governance over labour issues. The main works from the business school genre of writings are reviewed in this chapter. The focus is on the topic of "China's HRM", with there being discussion about the inaccuracy of the use of the term; and shedding light on how China's pervasive managerialism is enacted in the focal SOBGs. In addition, sociological research in relation to who the new "working classes" are, is also reviewed(see Shen, 2006; Lee and Shen, 2009), where it is pointed out that given the heterogenous and diverse nature of China's labour segments, Marxian frameworks may well prove ineffective in terms of their application to the research. The chapter concludes with a call for in-depth observation of the SOBGs' evolving history and current day-to-day managing practices.

Chapter 3 – Background

This chapter looks at the historical and institutional background of China's ongoing SOE reform. Tracing this back to the beginning of state-driven opening-up reform starting in the late 1970s, two crucial driving forces behind the shaping of the hybrid state corporations are identified: China's enduring decentralising reform, or "Grasping big, letting small go"; and the national project of building the Party-state's "champion" corporations in response to the ever-changing contingencies of a market economy. The chapter also anchors the location of Shanghai's local SOBGs in China's economic landscape, and also illustrates the mechanism that have enabled the local CCP to control the groups' strategies at a distance. It is its piloting and showcasing roles for the whole nation that make

Shanghai's local state sector such a vibrant and diverse segment of the state-owned economy. Based on these understandings, it is pointed out in this chapter that the SOBGs' "modernising" attempts to reconfigure the labour force have been subjected to the Party-state's enduring dilemma: choosing between economic efficiency and political stability.

Chapter 4 – Methodology

The methodological design of this thesis is explained and justified in this chapter. Beginning with a discussion on the role and value of social science inquiries, the chapter introduces abductive reasoning for justifying the reflexive rationale of this study. The exploratory manner of this research is conceptualised as a "casing" process, whereby the findings from successive cases can be effective tools for generating meaningful social theories, rather than merely providing interesting stories. Next, regarding the epistemological search for an analytical framework under uncertain conditions without any a priori construct as the founding basis, Kochan's "strategic choice" (1984) is adopted as a preliminary framework for guiding the pilot study. Based on the findings from the pilot study, this chapter also demonstrates why the focus of this research shifted to an inquiry into the CCP's governing ways and flexible controlling approaches to the SOBGs' labour management. The refined fieldwork solution as well as a detailed template of the case studies are also presented at the end of this chapter.

Chapter 5 & 6 – Case studies

Two SOBG cases, ElectriCo and TexCo, are covered in these two empirical chapters. In accordance with the layout of the case study templates, the empirical findings are narrated in relation to three key aspects of labour management changes: 1) workforce restructuring; 2) employment relations; and 3) market-oriented management. ElectriCo represents an incremental transforming history of Shanghai's local state-owned industry - profitable state assets have been intentionally integrated in the form of a business group, where decisions on labour management are systematically made through the group's hierarchical HR-oriented managing system. Meanwhile, TexCo, the subsequent selected case after

ElectriCo, was chosen after reflexive thinking about the latter. This entity is the result of the local CCP's radical decentralising policies for Shanghai's once enormous state-owned textile industry. The group's labour managing arrangements entail a mixture of formal and informal ways of negotiations. The aim is to highlight the significance of the two groups' evolving trajectories in their shaping of the present labour managing patterns. In addition, different market conditions, skill-sets of workforces and technological factors are creating divergence in the two groups' rationales underpinning their style of labour management. Nevertheless, CCP apparatuses' ubiquitous and sovereign influences in organising labour management are apparent in both cases.

Chapter 7 – Discussion and theoretical reflections

The findings from the case studies are discussed in this chapter. By beginning with the ontological thinking regarding the “hierarchy-network” nature of SOBGs, this chapter sets out to analyse the firm-level CCP apparatuses' flexible controlling approaches within the groups. The party's influences on labour management organising are conceptualised as having four types of roles: as “*Enforcer*” and “*Regulator*” on the matters in relation to employment relation reshaping; and as “*Manager*” and “*Facilitator*” with regards to the selection of a new cohort of skilful core workforces. Synthesising the findings from the two cases has shed light on the ways in which the various top-down decision making behaviours enacted by the Party apparatuses have been utilised so as to be sufficiently flexible for responding effectively to labour and business considerations, thereby maintaining the central authority's strong grip on power. Ontologically regarding SOBGs as the CCP's reforming solutions, the chapter further develops discussions on the party's dilemma in the course of ongoing reforms, as well as its dual agenda of improving efficiency of the state sector while maintaining labour harmony without risking open labour-management collisions. The chapter also develops a couple of theoretical reflections. When comparing the paths of the IR system making in the post-war European context, I contend that these SOBGs' transforming history can be seen as a “compressed” version of labour its management. The CCP, as the

groups' ultimate decision maker, has to constantly find out ways to adapt to various contingencies brought forth by market and technological changes.

Chapter 8 - Conclusions

In this, the final chapter, I conclude with the contributions that this thesis has made.

A shared body of literature: I believe I have provided a more holistic understanding regarding governance in China and historical research on the CCP into the study of China's labour management, which previously has been absent.

China's authoritarian unitarism: Little evidence suggests the Party-state will deliver a new deal to China's workforces. In other words, industrial unitarism will continue to be dominant in China's workplaces. What is more, the party's pragmatism is continuing to make it possible to marry managerial techniques and rhetoric with its authoritarian rule over labour management.

Reflections on "managing labour" as a new norm: In the wake of declining collective labour politics globally, managerialism appears to be prevailing, with the reinforcement of pragmatic trends in mainstream politics as well as with regards to new technological developments. I argue that China's experience of labour management should not be merely treated as a China-based pattern, but also as one of the variants of capitalism at the global level.

Chapter 2 In search of “labour management” – a literature review

In this chapter, I review the body of literature that explores Chinese labour management in general, and then point out the gap to be filled by this research. As a specific focus, I explore discussions concerned with China’s changing labour market and its link to the development of society.

First, different terms that emerge throughout the existing body of literature are reviewed. The extant literature has shed light on labour management development in China from a variety of perspectives, but these discussions are quite narrow because they are limited to the different researchers’ disciplinary backgrounds. The aim of sorting out the terminology is not only to address confusion regarding research objects in literature, but also supports the goal of this research, which is to consider labour management from a longitudinal perspective to reveal changing social relations in work organisations. Then, I move to introduce the different levels of analysis and the paradigmatic divergence in the literature. It has been argued that shifts in the research focus in the literature can be interpreted as paradigmatic shifts, because of the transition from a planned economy to “market socialism”. Next, prior observations on the context of industrial relations reform are reviewed to see how researchers examine future paths of industrialism, new institutions and the state’s purpose and role in shaping labour management in workplaces. Finally, when reviewing the extant literature on labour management in state sector, I target local SOEs, an area, an area that has received little prior attention, to illustrate why it is important to conduct firm-level inquiries in this context.

At the end of this chapter, I explain why longitudinal observations, rather than cross-sectional ones, would be desirable in future. In addition, I contend that discussions on “labour management” in China should be an inter-disciplinary, if they are to reveal the process of institution forming and complex social relations within various forms of social and institutional settings on a comprehensive basis.

2.1 Origin of the debate

There is a large collection of academic works engaging with changes in labour relations. According to Cooke's review (2009) on the literature from 1998 to 2003, the themes that have been discussed are as follows.

1) Industrial relations, SOE reform and labour market reform. This research has mainly focused on the role of trade unions and management with a backdrop of dynamic changes of employment relations in SOEs. In recent years, discussion on this issue has brought new aspects, such as the influx of the "new working class" (see Shen, 2006) as a result of the urban labour market being opened up to the rural labour force, and the risk of their potential challenges to the "old urban labour force".

2) Training and development, organisational learning, leadership and management development. The objective of these works is to look at how Chinese workforces have shifted into being "human capital" in a climate of management competence and entrepreneurship (Cooke, 2009, p. 11). Some of the most influential studies are those that have contributed findings on generational changes to work values (Ralston *et al.*, 1999).

3) Traditional aspects of HR practices. In addressing what "Chinese HRM" is, these studies have examined particular HR practices, such as recruitment, training and reward, in wide range of ownership categories. A variety of theoretical perspectives have been engaged with, including cultural and social capital, organisational psychology and human capital theory.

4) HR practices in joint ventures and multi-national corporations (MNC). Articles concerning these issues especially focus on the relationships between parent firms and their subsidiaries, or cooperating partnerships and how HRM policies are integrated in the context of globalisation.

5) Organisational behaviour. Rather than considering the relations between firms, these studies rely more on empirical inquiries derived from

workplace level. In general, researchers analysing organisational behaviours mainly use quantitative approaches to establish the extent to which, the cultural or institutional residuals of the pre-reform period keep influencing labour management practices in emergent market institutionalised work organisations.

Lacking a shared body of literature on general theories, researchers have extensively discussed post-reform changes on various matters, including IR policies, HRM practices, industrial/employment relations, labour process control, organisational behaviour and the Party-state's labour politics. The issues discussed by researchers from different disciplinary backgrounds often overlap and the terms, such as personnel management and HR, are often interchangeably used. Hence, it is necessary, firstly, to review the usage of terms in the existing literature.

2.1.1 Terminology

Researchers have used a variety of terms during different periods of China's reforming history. Sometime the terms "personnel administration", "industrial relations", "labour relations", and even "human resource management" were used interchangeably, not only according to the fast-changing context of economic development, for they also been deployed with different emphasises (Goodall and Warner, 1997).

In some cases, such as inquiries taking place in "working units" (*Danwei*), the "personnel administration" has been drawn upon to describe the changes to the reward system (Takahara, 1992), or the introduction of performance appraisal systems (Zhu and Dowling, 1994). In the early period of market reform, "industrial relations" used to be a main subject utilised to illustrate the changing decision-making inside the state-owned factories. Lots of researchers in that period were comparing Chinese reform with their counterparts in other former communist states, which were conducting reforms at the same time. The major topic of the debates was whether China's reforming path would be a unique pattern of socialist industrialism or become another example of East Asian styled labour management.

Discussions about Chinese HRM were also salient in the 1980s, when a growing number of SOEs started to import western approaches in management, whereby many were restructured as joint ventures with foreign owners. At that time, some researchers claimed that HRM analysis was appropriate, when in reality PM was still the dominant feature in labour relations (Goodall and Warner, 1997). Transferring SOEs into joint ventures symbolised two facts: first, China's acceptance of the market environment and the second, hybrid forms of economic entities would play an important role in China's economic reform. Thus, researchers' enthusiasm for probing joint ventures was underpinned by their anticipation that would be clashes, that might lead to convergence, of oriental/western, traditional/new, or political/market ways, brought about by reform by the central authorities. That is, given this context, HRM was either regarded as a symbol of a "new way" or an alternative to the traditional institutions nurtured by the communist regime. It became inevitable that HRM researchers would consider that institutional legacies might make China's new way of management substantially divergent to any particular form that would be categorised as a kind of "HRM", which has been solidly defined based on western contexts, in particular, that of the USA. Rather than illustrate what Chinese HRM is and disentangle the confusions of PM/IR/HRM, management researchers, such as Goodall and Warner (ibid), have tended to simply contrast of American-defined HRM and China's old system, which has thus failed to provide an in depth view of the latter's social and political settlement in relation to labour arrangements.

In this research, the concept of "labour management" is treated as a broader notion that entails most of the discussions mentioned above. In the following chapters of this thesis, I will address the importance of recognising the Party-state's influence (the "who is managing labour?" question) for understanding the changes taking place at the organisational level. Given the absence of in-depth insight into the Party's controlling approaches, the use of the term "labour management" could provide an effective lens for scrutinising the complex nature of China's labour changes. There are two aspects to highlight when considering this perspective in China: 1) concerning the institutional perspective, it allows for a coherent understanding of the relation between the personnel administration

and the old systems in state sector. It is essential for this research to understand that the continuous historical process must not be neglected and that the presence of “labour” and “management” will reflect the historical facts of changing social relations 2) it helps to reveal the institutional nature of the reform, which current “HRM” perspectives are unable to do, because they merely focused on economic-oriented reformation in organisations driven by business interests.

2.1.2 Existing epistemological perspectives

Observers of the early period of China’s opening-up reform shared similar interests with those focusing on post-communist changes taking place in the former East-bloc countries. In general, there have been two approaches to examining China’s overall changes regarding post-reform industrial relations.

“Culturalist”

In the “culturalist” authors’ eyes, the “uniqueness” of the Chinese management culture is rooted in the Confucian tradition. Warner suggests studies of Chinese cultural value in management as the “meta-paradigm” in his proposed typology. With a background of growing significance of foreign direct investment and emergent joint-ventures, these researchers believe that the development of Chinese work organisations depends heavily on indigenous cultural values.

Three general sub-paradigmatic dimensions can be identified from this body of work: global, “glocal” and cultural. Firstly, under the “global” sub-paradigm, researchers presume the western “standard framework” is adaptable to Chinese data (see Jaussaud and Liu, 2011). Such a methodology has been widely used by management researchers for comparing Chinese/western HR practices at the within firm-level and in relation single issues of management practices that could be improved by western theories. Secondly, taking account of the notion of linking globalise and localise, “glocal” researchers have analysed Chinese labour management in the manner of “plus or minus”, in order to shed light on a contextualist perspective of adapting “normal” labour management or HR theory to particular cultural settings. Thirdly, in relation to the “cultural” paradigm,

researchers have adopted Hofstede and Bond's approach (1988) of probing a culture's impact on the managing ways, which is to quantify individuals' values in the workplace and to illustrate national culture as independent variables for defining organisational culture.

"Institutionalist"

Emphasising China's unique historical path regarding labour management, some scholars have attempted to shed light on the institutional nature of China's management reform. Shifts from the communist to post-communist period might suggest a "paradigmatic shift" due to the incompatibility between the two systems (Boisot and Child, 1996). Nevertheless, the reform is still regarded as a continuous process of modernisation. Thus, for writers with institutional views, their objective is to develop frameworks so that the factors driving a nation's path in terms of changing regulations and policies can be identified, thereby allowing for predictions regarding the future of modernisation. China's reform of the state-owned sector and marketisation are often conceptualised as parts of the nation's layout of "Four Modernisations" by the authorities, whereby it is hoped that industry, agriculture, science and technology will be modernised. The state planning agenda rapidly evolved. Originating the year 1964, former premier Zhou Enlai proposed the first "Four Modernisations" plan at the Peoples Council, aiming to "making China a powerful socialist nation by the end of 20th century". Then, in 1979, Year One of Deng Xiaoping's reform, it was refined by him to include the goal of increasing per capita GNP to \$1000 by the year 2000, so as to "make people's quality of life *fairly well-off*" ("Xiao Kang"). Much new content has since been included in this Government propaganda driven modernisation, and the latest version was proposed by premier Li Keqiang in 2013 in relation to an information-based society being the new objective to be achieved.

As such, institutionalist researchers have been interested in exploring China's contextual features in regard to modernisation. Similar to culturalists, many institutional researchers have raised the question as to whether China will accord with western experience of stepping into the phase of marketisation. With a C-

space framework, Boisot and Child (1996) tried to illustrate China's modernisation as a path towards network capitalism. Rather than being perceived as evolving from the absolutist phase to nation-state-driven bureaus with centralised bureaucracies and then to a rationally codified market, for these authors, China's modernisation of the business system has been as a result of industrial governance with the new faces of decentralisation and marketisation. They also questioned that whether a market order with fully codified and diffused transactions represents the end of modernisation. Based on China's experience of networked transactions, it could be argued that such an uncoded system is a variant of capitalism, instead of representing an intermediate phase between a communist hierarchy and market economy.

In another paper, Boisot (1996) continued to promote his theoretical argument of "network capitalism" in explaining paradigmatic shifts of labour theories of value. Through examining different practical approaches taken by the Chinese and Vietnamese authorities, Boisot found that the two countries' pre-reform precepts of labour theories heavily influenced their managing ways, which have been described as being strongly interpersonal oriented. Other researchers have also called for "self-confidence" of Asian management researchers in terms of developing context specific theory. However, there is evidence that only three main topics have received sufficient attention in the discussion of Chinese contextualisation, these are market transition, network capitalism and *guanxi*. Intellectual efforts in seeking "Chinese characteristic" seem to be inevitably back the trail of global HRM discussions, as well as many similar observations in other nation states. As Warner (2012a) concluded, the inquiries on "Chinese management" turn out to be a "sub-paradigm" of HRM study.

Furthermore, Warner (ibid) pointed to another problem of this body of literature, whereby institutionalist researchers tend to look into specific areas, such as industrial relations, the labour market, human capital and HRM. As for research on a wider scale, studies on Chinese HRM have not effectively integrated economic and sociological perspectives. Moreover, only a few have involved taking historical background and economical settings as significant components of their analysis.

On the one hand, most work accepted by management science journals still strongly focuses on conventional managerial topics, whilst on the other hand, research with a real institutional perspective, which does not merely treat wider social concerns as background narratives, is left to mandarin-language sociological journals. Areas in sociological discussions, such as *class, status and power*, shed light on urban industrial conflicts; from the period of large-scale state sector restructuring to contemporary times, with the topics discussed ranging from the laying-off of state workers in the early 1990s to the very recent phenomenon of “mass incidents” (officially called industrial action). Also, there is another school of writers of HRM using psychological constructs, who mainly focus on organisational behaviour with “Chinese characteristics”.

In spite of the insufficient connections between those works with an institutional perspective, some of them are still insightful in shedding light on the changing face of governmental intervention in the economic transition. Taking a longitudinal view of actors’ changing role, those researchers have contributed considerable achievements in illustrating the state’s emergent new faces and management approaches through observing the transitioning state sector or newly emergent joint-ventures (for example, Ding, Fields and Akhtar, 1997; Goodall and Warner, 1997; Bjorkman and Lu, 2001). The question about what new roles the state plays in the market economy has been well answered by much existing research (See Taylor, Chang and Li, 2003; Smyth, 2005; Cooke, 2011). However, this empirical research has only focused on the early waves of SOEs restructuring. As Cooke points out, the state’s role outside the state sector has been paid less attention. In her research on the role of business schools and other educational institutes in making Chinese HRM, she strove to extend this discussion to the non-state local and organisational levels. It was found that a developmental state like China would influence HRM practices through flexible institutional actors instead of pre-reform governmental agents who directly control or supervise. That is, China’s new practices of labour management are generated from negotiations and cooperation between the central authority and localities, rather than being the result of governmental intervention through direct policy implementation. Being sufficiently autonomous, local governments and corporations often resist

demands from the centre. Thus, it is hardly surprising that the Party-state keeps seeking new approaches to maintaining its control over firm-level labour management. Cooke terms the diversity of HRM practices in Chinese companies as being managerial “isomorphism”.

2.2 What comes next? – debates on China’s post-reform IR paths

Discussions on which path China will go down to develop a new system of industrial relations were once warmly debated at the beginning stage of the reform. Along with the withdrawal of the state’s direct influence in industrial relations, new legislation on workplace regulation and new approaches to adopting market mechanism sparked questions, such as how has the government shifted its role from the general employer to labour market creator and the guild of new institutions (Zhu and Campbell, 1996), or arbitrator and regulator, in new labour relations system (Zhu, 1995; Ng and Warner, 1998). Consensus has been generally made regarding the state’s role transition, but contentions still continue on two issues, which are, the nature of China’s new industrial relations system and what actors’ roles in such new institutions are, in particular, what are the new faces of managers and trade unions (Taylor, Chang and Li, 2003). Also, concerns in relation to the nation’s future path have also been of interest to many writers, intrigued to see whether and how the state would develop its unique pattern of an industrial relations system.

When investigating industrial relations systems, it is important first to understand that a separation exists between the owners of production and the labour force that engage in the production process in exchange for a wage. In the workplace, several workplace-based issues can be examined, such as the organisational structure, operation of the labour process and employment relations. For a broader view, observations at the state or institutional level would allow for mapping out the relations between the societal-level of institutions. (Taylor et al., 2003, p. 3) In sum, deploying an historical framework to make inquiries in relation to an industrial relations system would help provide understanding as to how an

industrial society is shaped by the making of social relations through the means of production.

As to Chinese industrial relations, whilst there are a substantial number of works across a wide range of disciplinary fields, focusing on such matters as legal changes to trade unions, the changing labour market and the replacement of old regime with western managing approaches, there have been very few that have probed China's developing industrialism at the macro-level. Most writers contributing to this issue tend to narrow down the discussion within the range of their own disciplinary background, because China's developing pace has been too rapid to grasp the image of a society. As a consequence, it has proved extremely difficult to produce a general theory that can explain macro-issues, termed "China's developing model" or the "Chinese pattern".

However, there still needs to be discussion on the macro-level understanding of labour-management relations in China. No matter which development phase China is witnessing, a broad image is still required to characterise the forms of social relations embedded in the industrial relations system, such that essential societal changes, rather than merely matters to do with single economical or legal practices, can be identified and examined. In what follows, the main two theoretical discussions regarding China's general industrial relations trajectory are introduced.

2.2.1 Neo-traditionalism

In Walder's work, "Communist Neo-traditionalism" (1986), he proposed a structural sociological framework for summarising the pre-reform systems of industrial relations. From interviews undertaken inside the state-owned factories in 1980s, Walder pointed to the importance of working units, *Danwei*, in China's communist industrial regime. Not only as a workplace, but also as a cell attached with workers' housing and social welfare, *Danwei* is organised and planned by the state, thereby being regarded as an ideal access point to address the question: "how is Chinese communist society managed and organised?". Workers' life is

highly dependent on their workplace, both economically and politically. Based on research on Danwei, the communist enterprises are described as social institutions and the labour force is a factor of production, the cost of which does not restrain demand for it (ibid, p. 29).

After justifying a completely different economic logic between communist and western industrial systems, Walder also pointed to fundamental differences between his perspective of “neo-traditionalism” and totalitarianism and also, the differences with pluralistic corporatism as follows.

- *First, compared with totalitarianism, “neo-traditionalism” emphasises more the influence of positive incentives in earning compliance, rather than tight surveillance and political control that are used in the former. Through systematically rewarding decent jobs and special material distributions, the state garners political loyalty from the working class.*
- *The second point diverging with totalitarianism is that whilst the neo-traditional state does attempt to inject ideological standards of behaviour into society, stable social relations also need to be established to make sure of adherence to the ideology. Thus, personal ties are treated favourably in neo-traditional society, in contrast to the hostile attitude towards them under totalitarianism.*
- *Thirdly, the priority of communist institutions is to implement political control, rather than catering for the needs “real” political factions or interest groups. In addition to ideological language and behaviour, communist institutions also create social structure itself.*

To some extent, both totalitarianism and “group-pluralism” imply certain forms of ideal types represented by two ends of a continuum, in which the former symbolises a “tyrannical society”, whilst the latter pertains to a “democratic society”. Walder tried to claim the uniqueness of communist industrial society, in particular, highlighting its divergent path leading industrialism, with its potentially unique success lying in the trajectory of “neo-traditionalisation”. Walder found that there are underlying “latent rules” in Chinese communist

labour-management relations, which manifest themselves hierarchically in the system, rather than taking the form of ideological egalitarianism.

2.2.2 Disorganised despotism

Ching-Kwan Lee's study (1999) on industrial enterprises in the Guangzhou region, the major powerhouse of China's labour-intensive production in the post-reform era, shed light on another picture of industrial relations in the country's transitioning period. Lee found that the state workers were trapped in a "transition gap" between two systems – the diminishing "from cradle to grave" system of welfare distribution, and the shaping but not yet mature socialised safety net for all workforces. As a result, state workers, whether they kept or lost their jobs in state enterprises, faced tremendous vulnerability in the wake of China's market socialism.

In the meantime, the economy became increasingly diversified with the emergence of various form of non-state economic entities. Both socialist paternalism within Chinese workplaces and workers' collective voice, granted by socialist ideology, have been flattened by emerging capitalism in south China. On the one hand, workplaces are dictated to a by prerogative discourse of managerialism – managers' power was legitimised in the rational pursuit of market efficiency (for the sake of both the business interests of transitioning as well as sustaining the workplaces' responsibilities of social welfare). On the other hand, the collective interests of labour have become fragmented due to state repression as well as open opportunities in labour market. Lee conceptualised such fundamental changes to China's workplaces as "factory regimes" dictated by "disorganised despotism". By bringing more information regarding the emerging norms as a result of China's market reform at the intersections of centuries, Lee's conceptualisation has brought new insights into China's transitioning industrial relations as whole. It has offered a new opportunity to scrutinise how the Party-state labour politics collide with its own agenda of fostering a labour-intensive economy.

With such “disorganised despotism”, state workers were simultaneously punished by the state’s failure to institutionalise a socialised safety net and the retreat of enterprise paternalism. Commodification of enterprises literally meant an elimination of welfare and workers being left to their own devices beyond a monthly medical allowance. In this regard, Lee suggested that private-owned enterprises are no different from state ones. Moreover, such commodification also meant the weaker, less efficient state enterprises were subject to the inevitable fate of being closed or disposed of. Many of them were so impoverished that they were in severe need of centralised insurance funds, but they were also the least capable of making contributions to local revenue. The more inefficient the enterprise, the greater the pressure to commodify welfare, thereby putting an even greater economic squeeze on workers' dwindling pay-cheques.

In addition, Lee predicted that large-scale SOEs would still be able to maintain their capability to deliver high wages and more efficient state-led interventions to preserve CCP institutions. In particular, those large, capital-intensive firms that aimed for a future of sophisticated technologies would have been both willing and had the capacity of retaining the Danwei form of benefit provision and job mobility. She also suggested that the market-based labour regime could co-exist with Danwei institutions within the same region. With the absence of effective voice representing an channel alternative to the Party’s official unions (ACFTU apparatuses), disorganised despotism could have become even more pronounced with those emerging market-based economic entities when compared to SOEs. The only factor restraining such a managerial prerogative seems to have been workers’ increasing choices of making a living due to greater labour mobility and access to the market economy. A good example of this, as suggested in Lee’s later works, was the labour shortage problems in China’ labour-intensive powerhouse regions meant that people could vote with their feet.

2.2.3 Convergence

China’s state sector transition sparks many debates on the possibility of converging with the managing ways of other countries. The issue of convergence entails three aspects: industrial relations structure, employment practices and

social insurance. Many business writers assume the trend of convergent with western patterns, while there is also empirical research revealing China's divergent path from other transitional economies (for example, there is evidence that China is diverging from the Vietnamese experience of market reform, according to Chan, [1995]). It is also interesting to see whether emergent Chinese labour management is adopting Japanese management techniques, or converging with other Chinese speaking countries so as to make a potentially universal "Confucius management" system (Warner, 2009). These arguments in relation convergence are based upon China's pragmatism towards reform, which has involved directing workplaces to adopt any approach useful for helping SOEs adapt to the emergent environment. On the one hand, the central policy makers have attempted to move away from the nation's past the state as the supreme employer by implementing a new contracting system (Warner, 1996), with wage systems turning to being more performance oriented. On the other hand, dismissals of long-standing managerial personnel remained at a low level and the reward system kept old features from the pre-reform era, including higher security for aged workers and equality-oriented personnel arrangements (Goodall and Warner, 1997).

Chan explained that these partial marketised changes indicate that Chinese state enterprises can be developed into being an organisational-oriented system. What is contrary to "organisation-oriented" is "efficiency-oriented". These two ideal types were defined by Dore (1974) when comparing the managing features of British and Japanese work organisations. Regarding "efficiency-oriented", Dore conceptualised it as the type of contract-bound labour relations that have a high level of insecurity and lack of commitment from each party. The relation between employees and management is assumed as always in the status of conflict, rather than sharing interests and having a sense of loyalty. As for "organisational oriented", the labour contract is expected to represent a stability of labour relations. Skill level is not the only criterion involved in the concerns of the personnel arrangement, but also other personal status aspects, such as working years, age or family background. In relation to the wage and reward system, workplaces with a high level of committed loyalty often have a fixed wage bill,

which makes managers careful to “divide the cake” fairly so as to preventing any risk of damaging the paternalistic relations.

Within the context of China, managers’ rising power in labour management was once regarded as a signal that it was restoring its pre-cultural-revolution managing style, whereby workers’ job security was concerned as important in fulfilling the state’s plan. Additionally, before the 1990s, even though the enterprises were asked to adapt to being more “efficiency-oriented”, managers did not dare to threaten senior posts in consideration of senior staff’s prestige among workers. Another feature of the “organisation oriented” unit was that most of SOEs retained their own enterprise unions, branches of the supreme Party-dominated trade union (White, 1987), which resonated with Japanese enterprises. In fact, before the state accelerated its progress in phasing out “iron rice bowl”, many management trainees were sent to study in Japan, rather than the western world. In 1994, when Premier Zhu Rongji’ s government carried out the “downsizing” policy and “reforming deadline” in SOEs², a great deal of these were still adopting or learning the Japanese school of management in attempts to improve organisational efficiency (Vogel, 2011). However, radical policies pertaining to reforming the state-sector by the Party leadership meant an answer to the “where to go next” question became imperative.

2.2.4 Academic reflections on the new labour legislation

Since 1994, the new labour law declares that employees can form a contract with employers in relation to agreements on labour remuneration, working hours, insurance and safety. Workplace unions were also granted rights to act as bargaining agents. Replacing permanently guaranteed employment, the labour contract then became widely adopted in almost all the workplaces in the country. Since then, the state started formerly to quit the role as general employer and instead, national laws that are implemented by local governments regulate employment conditions. The new system is constituted by two contracting systems: individual contract and collective contract. According to Ng and Warner

² See Chapter 3, discussing about Zhu’s radical state sector reform.

(1998), the principle of the collective contract is based on the notion of equality and unanimity through any consultation. What is more, it was particularly stressed by the Ministry of Labour that the contract making process shall be a process of “collective consultation”, rather than “collective bargaining” (Warner and Sek-Hong, 1999, pp. 303–304).

Key researchers of China’s emergent industrial relations system have come to a consensus that this “collective consultation” system has been vastly different to the western notion of collective bargaining (Wu, 2012). In the “benchmarking” interpretation in western classic literature, collective bargaining is described as pluralistic coalitions of sectional interests (Kerr, 1977; Dunlop, 1993). For Flanders (1968), the nature of collective bargaining is a regulation making process between the labour force and employer. The collective contract generated from collective bargaining will not only solve the labour exchanging issue between individual workers and employers, but more generally, will ensure that the labour force acts as one of the parties to bargain for all conditions included in the contracts, other than price of labour. Before Flanders, Dunlop (1993) had already raised similar arguments that the three actors in industrial relations, namely, the labour force, employers and government, create a web of rules, including “procedural rules” and “substantive rules”, to address conflict in the external environment. Both Dunlop and Flanders have explained the pluralistic nature of collective bargaining, under which it is assumed that separate interests or even conflicts are the normal conditions of collective bargaining. Despite there being an upgraded theoretical version in the 1980s (see Kochan, Katz and McKersie, 1986), which saw collective bargaining as a middle-ground decision making process, there has been virtually no shift in the pluralistic discourses in the pertinent literature³.

³ In Kochan and his colleagues’ “strategic choice model”, not as much focus is put on macro-level industrial relations as Dunlop. Instead, the analysis concentrates on actors’ behaviours of choice at the firm-level. The institutional structure of firm-level labour relations is defined with three levels: macro, middle ground and micro-level, where collective bargaining is regarded as the middle-ground strategic choice (Kochan, 1980; Kochan, Katz and McKersie, 1986).

Nevertheless, there are still radical voices who doubt the existence of this pluralism. As Fox (1973) pointed out, it is a massive mistake of Flanders consider collective contracts as “collective individual contracts”. First, there is fundamental difference in purpose between individual bargaining and collective bargaining: the former is for acquiring jobs, while the latter is a process with political meaning, which aims to bargain for employment conditions and a better working environment. Thus, it is important to note that collective bargaining is not merely an economic process focusing on labour trading, for it is also a political process. Second, the result of collective bargaining could possibly be failure to make agreement and hence, could lead to industrial action. To some extent, collective bargaining represents the continuing changing equation of power inside a work organisation. According to Clegg’s conclusion (1976), collective bargaining offers a form of workers’ participation in management and should be central to the activities of unionism.

Undoubtedly, the image of collective bargaining in western literature is far different from Chinese “collective consultation”. Brown (2006, pp. 40–44) has listed differences in five aspects:

- 1) Purposes and bargaining or consulting coverage;
- 2) The nature of trade unions;
- 3) Bargaining or consulting subjects;
- 4) Responsibilities of bargaining or consulting representatives;
- 5) Performance and procedures of collective contracts.

Besides all these, Wu (2012, p. 4) further pointed out that the a divergence from western experience lies in the fundamental difference in role of the state.

Whilst collective bargaining can be to some extent influenced by the state, the ultimate decisions are still made through labour-employer interactions (Mabry, 1965). However, collective bargaining is controlled by the state, and this is the consensus of the key researchers. Regardless of employers or trade unions, the agencies taking part in collective consultation are unable independently to represent their interests. Rather, the bargaining or consulting processes subject to

state's directions and subjects, such as wages and employment conditions, are constrained by local regulations. As a result, the emergence of the Chinese version of collective bargaining system has manifested itself as top-down administration, rather than labour-employer conflict.

The nature of the "state-driven" collective consultation system has been realised by many researchers. In Ng and Warner's review of western literature (1998), he noted that emerging economies during the post-war period, such as Japan and South East Asian countries, had sparked debates on the neo-unitarist perspective of collective bargaining. Also, the paradigmatic shift of western theories of industrial relations from the late 1960s to the early 1970s offered researchers an historical opportunity to re-examine union-based industrial negotiations, by considering them as both "adversarial" and "collectivist" in relation to the different parties' interests (Harbison & Coleman 1951, cited by Warner & Ng 1998, p. 301). To some extent, the convergence between west and east on the matter of IR represents a growing managerial concern to consider individual performance as the determining factor of payment and reward, thereby replacing the old "collectivistic IR model" (Storey, 2007). Some observers believe that such a new "neo-unitarist" model can be an extending ethos of capitalism, which is beyond the "we-they" notion. As part of this type of IR model, China's emergent "collective bargaining" is obviously highly unitary rather than pluralistic, but at the same time, the contract is collectively negotiated in a decentralised process at the basic workplace level (Ng and Warner, 1998, p. 302). However, Warner and Ng especially emphasise that what has appeared in China has not meant the rise of British style "voluntarist" multi-unionism. For, the procedural norms are still generated by the state agencies, mainly between the Ministry of Labour and ACFTU, and their local subordinating agencies have little power to change those agreements from central sources and can only slightly adjust them in order to meet with local regulations.

However, disagreements still exist concerning the state's purpose for initiating this series of new policies. According to Warner and his colleagues', with the breaking up of the *Danwei* system and emerging forms of economic entities, the

state has lost its dominant position in work organisations and so, manages to maintain its influence in the economy by actively promoting collective bargaining. Consequently, the purpose of implementing collective consultation system does not appear to be the state's determination to make a "replica" of the western model (Warner and Sek-Hong, 1999, p. 306). Through making norms from the centre, then conducting these to contingent agencies workplaces, the new institution provides the state an effective lever for controlling firm-level regulation making. Another reason is, as argued, out of political concern, is that the Party-state's withdrawal from the shop floor might leave an institutional vacuum from which "syndicalist" movement could arise (ibid). In general, Warner offered an image of there being an official rationale behind promoting a collective consultation system, whereby the state aims to hold continuous control of workplace regulation making through new approaches.

In contrast to Warner's argument, Clarke considered the state's purpose is to create legitimate room for labour-management conflict and moreover, to institutionalise the involvement of trade unions. Whilst he agreed with Warner that the collective consultation system is not based on negotiated regulation of labour relations (Clarke, Lee and Li, 2004, p. 250), Clarke was still optimistic about Chinese trade unions' potentially active role in future. This new institution might turn out to be formalistic in terms of its implementation at the local and workplace levels, but at least the collective consultation represents the first step towards trade unions playing a part in the state function of juridical regulation of labour relations (ibid p.251). Despite Warner and Clarke having shed light on the nature of China's emergent IR transformation and both of them being in agreement on the features of "state-driven" arrangements, a few questions remain unanswered other than those pertaining to the state's reasons for initiating transformation: 1) What is the specific practice that the state put in action so as to achieve its purpose? 2) As the "state-driven" model works in a way of top-down, how do the "tops" and "downs" interact with each other? 3) What is the state's strategy regarding interaction with local governments and contingent trade unions?

To answer these questions, further inquiry has to address two issues. Firstly, to what extent is there an independent mechanism of voice representation involved in shaping transformation in workplaces? Many researchers have pointed out that Chinese trade unions are absent from representing workers' interests, which is the basic condition of voice representation within a tripartite system. Instead of being driven by the workforce, the restructuring of labour relations in China took place through the state's effort of institutionalising collective representation and industry-wide bargaining, which was carried out in the form of the western model of labour-management cooperation. Staying away from some western countries' path of making the post-war social contract for labour, China's Party-led regime has never permitted workers' representation to become antagonistic against management.

Secondly, the CCP and its agencies' deepening involvement in the SOEs' transformation has not only blurred the boundary between ownership types, for it also made it increasingly difficult to explain the nature of the labour management hierarchy under state control. Labour regulation making has been taking place in a climate of increasingly complex relations between professional management and the Party elites brought about by the Party state's changing central-local relationship. As the CCP's bastions of forging strong national prestige of industry as well as being the local CCP authority's main sources of revenue, China's local SOEs have become nexuses of complex power relations between a variety of players created by the enduring process of state-led transformation. Such complexity generates a challenge for researchers to identify an appropriate conceptual framework to analyse the vivid social and political changes that have been continuously affecting labour relations in China.

In Wu's (2009) work on China's "index-oriented" system of collective consultation, he attempts to continue this series of discussions. On the one hand, he sheds doubt on Clarke's view on the state's vision of creating a western-like collective bargaining system that is driven by conflict. He points out that current collective contracts still lack constraining forces for their inoperable terms, so such an argument is thought as (ibid, p.6). On the other hand, he also criticises Warner's

notion of the collective consultation system as being too simple for concluding that the state continually seeks direct control of the regulation making procedure. The growing complexity of conflict between employers and labour forces in recent years has made the state realise that a new institutionalised solution, which is adaptable to any potentially emerging form of conflict is needed. In the first decade of 21st century, there were two significant changes made to the collective consultation system. The first time was in 2004, when the Department of Collective Contracts was established for dealing with increasingly deteriorating labour relations in almost every sector. Decades of marketisation have rapidly brought a mixed economy with different forms of conflict. In 2007, for the second time, ACFTU promoted policies of regional and trade collective consultation in order to relieve the mass industrial actions that emerged as a result of the recession. Wu interpreted these policy changes as being that the state's purpose was to find a flexible framework that would be consistent with the central mentality of controllable and gradual reform.

In fact, neither Warner nor Clarke has scrutinised changes in the collective consultation system that was place after the 1990s, when it started to be operated in target-oriented and target management ways. After deploying qualitative inquiries in provincial-level localities, Wu (2009) expressed his concern that such approaches would possibly turn out to be formalistic, thereby leading to the creation of unworkable contracts between labour and management.

2.3 “Brave new world” of capitalism – perspectives from labour sociology

With the backdrop of China's export-driven industrialisation, international labour scholars have attempted to build up a public sociology of labour for explaining the nation's new working class formation. They criticised the paucity of labour studies on the agenda of Chinese sociological research, due to the politically sensitive nature of the labour issues. Instead of interpreting labour issues through a non-colliding lens, as many Chinese scholars have done, these Marxian sociologists have been more concerned with structural and institutional matters, such as the

role of the state, the regulation mechanisms and the social reproduction of labour. Many empirical inquiring efforts of this genre of sociological research were extensively influenced by Michael Burawoy's public sociology, which actively engages with class inequality issues through participatory methods. The primary objective of "Chinese public sociology", as Ching-Kwan Lee argued, is to explore the experience of the working classes in new social-political settlements.

Those labour sociologists identified two segments of the Chinese working class that are at the forefront of struggling against political powerlessness and at the heart of labour unrest: the migrant workers (*nongmingong*) in the emerging export-driven coastal cities; and the unemployed state workers and pensioners in the "rustbelt" regions or downsized state industries. Regarding the first segment, The research has mostly been based on ethnographical inquiries in the emerging industrial cities in South China, which are regarded as the main engine of China's "World Factory" role (Chan and Ngai, 2009). As Chan and Ngai summarised (*ibid*, p.291), on the one hand, the large scale immigration of young workforces from rural regions has been a proletarianisation process driven by the dissolving of the urban-rural divide. On the other hand, such a process created the spatial pre-condition of making a working class. Apart from the proletarianising perspective, labour sociologists were also searching for the essence of the burgeoning new working class's collective experience. According to the labour historian E. P. Thompson's analysis of the making of English working class (2002), "class happens when some men, as a result of common experiences (inherited or shared), feel and articulate the identity of their interests as between themselves, and as against other men whose interests are different from (and opposed to) theirs" (2002, p.9). With assumptions of similar life history and the spatial combination, "interest-based" and "class-oriented" collective actions were arguably expected to happen frequently in China's future labour relations (Chan & Ngai 2009, p.289).

As for the other segment of workforce, the former state workforce or "old workers", as was referred by Shen, this type of worker arguably falls in with the Polanyian explanation of proletarianisation, which is conceptualised as a process whereby workforces are marginalised in the wake of large-scale marketisation at

the national level. According to Shen's theoretical explanation, there was no seemingly distinct ideological consciousness found among the "old working class" before the marketising reform initiated - as China's socialist working class was uniformly defined as the "masters of New China" (*zhurenweng*) in both ideological and material ways. The SOE reform also triggered the shaping of a sense of community and class consciousness in terms of being the socialist nation's "masters". In other words, such consciousness was shaped based on workers' "nostalgia" or collective memory in relation to the Maoist era, rather than as a response to the changes in wage system that could lead to risks to their own economic interests. This could explain why many rust-belt workers resolutely resisted managers' plans to deploy a market-oriented transition. Looking back to western labour sociology, Burawoy and Lukacs (1992) offered similar theories based on Eastern European workers' resistance against state-led marketisation. That is, the ideological discourses from the "Radiant Past" would spark the emergence of the new class and the community, rather than the shop floor, would be the place for breeding such a process.

This genre of labour sociological writing has offered a timely critical perspective of scrutinising China's reconfiguration of the labour force in the age of great economic transition. It has brought academic attention to China's increasing amount of labour disputes and unrests, advocating a participatory, reflexive type of sociology that aims to demonstrate the shaping of new working classes - or in Shen's words, "bringing class back into analysis". Such consciousness of capturing the experiences of various types of workers, has directed labour research in China towards areas that used to be neglected, such as gender studies, immigration and microscopic observations of labour movements. However, as much critique on the agenda and approaches of public sociology has purported, the a priori constructs adopted in that research is not only questionable, for it is also inaccessible for questioning by the wider audience of professional sociology. Consequently, there has been a lack of critical discussion on those labour sociologists' a priori arguments regarding China's overall picture of working class reproduction. Hence, there has been a tendency either to generate macroscopic theory in relation to China's new working class and labour managing regime or a focus on the newly

forged identities, such as being female or migrant labour, based on contingent social settings. In sum, as political and social settlements have been rapidly changing in China, it is now increasingly difficult to generalise a Chinese labour managing model through the lens of public sociology.

2.4 Paradigm shifts in the management research approach

Looking back to previous work carried out by researchers on Chinese labour management, it is hard to find literature that can give a definitive understanding the phenomenon constitutes. China's farewell to the planned economy did not lead the country's industries to follow the path of western experience, but rather, an uncertain one with a strict industrial governance and regulation process (Boisot and Child, 1996). Observations that have attempted to shed light on the new face of labour management, can be found across a wide range of disciplinary backgrounds. However, as a whole body of literature, it is highly fragmented, because the discussions were made at different analytical levels. The question as to what the future path of labour management in the state sector will be, is often responded to from different disciplinary approaches: observing the early stage of Deng's reform, writers with an industrial relations background focus on China's path towards industrialism. As to the state's blueprint for establishing a "modern corporate system", management writers have hoped to illustrate an emerging "Chinese managing way" or Chinese HRM, by including observations on general social-political changes and reforms to the industrial relation system in their institutional analysis. What is more, inquiries looking at the new working class have also sparked debates on China's new unionism under the new external environment of the global economy in terms of the responses by the state and management.

It should be noted, the body of literature has been pre-dominantly HRM-oriented, as managerial power in China's transitioning organisations has been seemingly unchallengeable. Research from a political or institutionalist perspective has been on a course of gradual retreat from the management school writing since the mid-1990s. After Boisot and Child's speculation on China's "network capitalism", the

main-stream management school writers (see Meyer, 2006) have called for “braver” attempts to explore China’s indigenous theory of management – in other words, to open up a sub-paradigm based on the insights of local cultural and historical settings. Since then, HRM literature has evolved as researchers started avidly to follow China’s rapidly changing pro-market policies and social-economic settlements, leading to the consequent dominance of HRM writings in the body of literature. Taking emerging capitalist forms of economic organisations as units of analysis, the HRM researchers were more interested in Chinese firms’ paths and methods in introducing HRM-oriented ideas and practices. Some of them have focused on HRM’s roles in the shaping of China’s emerging multi-national corporations (see Warner and Nankervis, 2012; Nankervis *et al.*, 2013), whilst others have kept a watchful eye on small and medium sized SOEs’ responses to those new managerial norms in their trajectory of transformation (see Cunningham and Rowley, 2007). Discussions have been prone to highlight the underpinning importance of cultural and historical roots in Chinese society in shaping “Chinese HRM” (see Bell, 2010; Pan, Rowney and Peterson, 2012). This has also triggered the debate around the “uniqueness” of Confucian culture – whether it can be an effective contextual factor that make studies on “HRM with Chinese characteristics” as a genre differ from the traditional western writing (for example, Kragh, 2012).

According to Warner’s review (2012b), previous research could be seen as contributions to a specific area with a diversity of paradigmatic dimensions, in which researchers paid attention to different areas. Warner proposed that Kuhn’s concept of paradigm in the periodic changes of natural science could be applied to deepen insights into such a diversity. As Kuhn argued, the evolving history of natural science is a process of periodic “paradigmatic shifts”, rather than a linear and continuous process and he further pointed out that, “the scientific community is a supremely efficient instrument for maximising the number and precision of the problem[s] solved through paradigmatic change” (Warner, 2012b). Subsequently, Warner moved on to looking back to early social theorists’ efforts at making paradigms in management science. Based on these experiences, he revealed the interests shifting over thirty years of China’s reform. At the very

beginning of the reform, much attention was paid to the emergent legislation aimed at reforming industrial system relations. Subsequently, after the state sector survived the impact of market mechanism, there has been growing interest in China's "people resource management", rather than continuously scrutinising laws and policies in different guises. Compared with Kuhn's "three-stages" of scientific development, the current stage of researching Chinese HRM or labour management appears to be at "pre-paradigm" phase, in which there is no consensus regarding any particular theory. In his conclusion, Warner admitted that it is hard to pinpoint what is "Chinese management", and it could also prove fruitful if Kuhn's use of "paradigms" were extended to the field of Chinese labour management. Despite of these misgivings, he pointed out that the potential dimensions for inquiry are more or less reflected in most research. A "normal" paradigm or a "culturalist" one could be two potential pathways for further research.

2.5 Heterogeneity within and across – a lacking area in the literature worth paying attention to

In light of the above, it can be seen that the extant research has contributed considerable knowledge on the nature of the state's role in reforming industrial relations. However, the particular ways in which the state and its contingent agencies influence or engage in labour relations and regulation making at workplaces has received scant attention. Whilst the literature has revealed practices of decision making in detail against the background of large-scale SOEs transformation, there remains a lack of accurate cognition of this recent decade in which governing and controlling measures have significantly shifted towards decentralised negotiation, while maintaining centrally enacting laws and consultation (Wu, 2012).

To some extent, I would suggest that this gap exists because of the lack of an interdisciplinary perspective on labour management research in the Chinese context. In the last decade, the major work appears to have been narrowly focus

on single disciplines, using quantitative research methodology, rather than there being in-depth inquiry from an historical institutional perspective. Regarding SOEs, whilst a few writers have illustrated how the Chinese state sector has implicitly participated in the market as well as playing an active role, more detailed studies to uncover the anatomy of the power relations and ownership categorisation are still needed. On labour management, researchers continue to focus on the organisational perspective, instead of engaging in an institutional interpretation that probes the institutional changes in social relations shaped by the new environment. Topics researched are also limited to issues of HRM, including employee commitment, learning organisation or theoretical understanding of Chinese HRM. In general, the question left to research further is how relevant is the body of labour management/HRM literature published so far to the reality of what has been unfolding in the Chinese IR context? (Warner, 2011).

Despite management school researchers' observations on the introduction of HRM in China, other labour management research into SOEs has been neglected in recent years. This is hardly surprising, because the wave of decentralisation and SOEs' fundamental transformation has been so rapid that the snapshots provided by researchers having become quickly outdated, thereby failing to capture the bigger picture about what has really been going on. However, the complexity of ownership in contemporary China appears to be an urgent emergent issue that requires understanding. Former inquiries deployed in the workplaces of joint-ventures in China were carried out in a period when the boundaries of ownership had not yet been made complex by the diverse controlling approaches the state later came to adopt. For instance, particularly in the state sector, there has been a strong trend within local state entities to put local benefits as the priority, which might collide with central demands (Szamosszegi and Kyle, 2011, p. 26).

Heery and Frege (2006) pointed out the drawback of the existing HRM is that it has ignored the widening range of new actors that have emerged to play significant roles in shaping industrial relations; an argument that is highly applicable in the Chinese context (Cooke, 2011, p. 3833). This is particularly the case in terms of local governments and SOEs, whereby they have their own agenda

for promoting local development and sometimes their roles are not only those of subsidiaries of the central authority, but also, competitors or co-operators with the central agencies (ibid). Since the decentralisation reform, local governments have protected their own revenue sources and controlled local SOEs through administrative measures, such as obstructing centrally initiated mergers or nominated local officers from becoming managers. As Yang (2004, cited by Szamosszegi et al. 2011, p.31) noted, “local governments promoted the development of local firms both when it was appropriate and when it was not”. It could be the case that specific local practices of labour management have emerged from these IR actors, which have been accepted by central policy makers and this has led to a convergent managing model and/or the creation of isomorphism across the regions.

Unfortunately, in recent years, few in-depth studies have investigated the institutional transition of labour management in local SOEs. Many previous observations have revealed specific issues of these enterprises in transition from similar perspectives, including laying-off of workers, transitioning trade unions and the introduction of western HRM. Some of them have probed how large companies have contributed to national growth in the contemporary Chinese economy, but far less attention has been paid to labour organising practices. That is, little scholarship has been devoted to uncovering the complex conflicts, negotiations and/or cooperation between the central authority and the localities.

Diversity across regions and industrial sectors

In Lüthje, Luo and Zhang’s typological work (2013), they have pointed out that labour management in China is highly fragmented among the workplaces for different industrial sectors and ownership types. Various labour standards co-exist across the country as the employers have quickly adapted to China’s rapidly changing institutional framework. Aiming to reveal various forms of “politics of production” in their typology-oriented study, they selected workplaces from a wide range of ownership types and industries as units of analysis. Rather than bringing any a priori constructs, such as the existence of stable IR institutions, their work focused on the shaping and transforming history of institutional

arrangements and by doing so, the study revealed a picture of multiple paths for China's industrial relations.

Compared to previous management school and labour sociological inquiries, this work has been a ground breaking step in terms of bringing China's rapidly changing legal and social settlements into the analysis. It builds on labour sociologists' theoretical contributions regarding the "old" and "new" regime of production, as well as the various forms of labour actions responding to those different institutional settings. Moreover, Lüthje and his colleagues also suggested that such recognition on diverging regimes of production needs to be broadened so as to shed light on other institutional conditions at the local and workplace levels. Rather than being limited to the conception of the "rustbelt north" and "labour-intensive south", discussions on regime of production have to be extended to more diverse settings, such as models of production, work organisation, recruitment policies, performance control, bargaining relations and wage systems. They have also pointed out that all these factors are not necessarily determined by the ownership and production types. Hence, the conventional notions of the segmentation of labour managing patterns, for example, the dichotomy of state-owned and private-owned (or foreign) enterprises, and "old" and "new" regimes of production have to be re-scrutinised.

Lüthje and colleagues' typology demonstrates five types of regimes of production in terms of assessing the workplaces' level of strength of control over various labour managing matters. It is a refreshing picture on the heterogeneity of labour managing regimes within and across regions and industrial sectors. Such an approach can be further deepened in terms of revealing the internal diversity within particular regions or industrial sectors. Targeting the matter of the nation's general path "after the Iron Rice Bowl", Lüthje and colleagues did not generate a theory other than constructing five different ideal types of regimes of production. With regards to the question pertaining to the possibility of Chinese workers' independent voice expression and autonomous role in bargaining, the study simply concluded that the Party-state does not have an agenda of offering a new deal to Chinese workers. As for the Party-state itself, the source of managerial

dominance in all five ideal types, as was assumed in these case studies, these authors provided no in-depth analysis of this particular phenomenon.

There are two kinds of paradoxes in the extant literature. For the studies aiming to provide general theory at the national level, researchers have to tackle China's complex, diverse labour managing settlements. It is difficult to generalise a uniform model of the IR system or labour managing pattern that has been developing in post-reform China. Whilst for those researchers who aim to generate microscopic theory within particular "regimes of production", it is challenging to follow China's rapid pace of legal and national policy changes. As a result, their theories would appear to fall into the awkward position of merely providing rich narratives on the context of contingent social and institutional settlements. Consequently, in the search for the institutional rationale underpinning China's "labour management", it is necessary to: a) broaden insights on China's heterogeneous settings of production and labour institutions, a task that requires more in-depth inquiries to reveal more complex forms of institutional and organisational contexts; and b) shed light the nature of the Party-state's distant, but sovereign, influence, through the collection of rich qualitative data. Also, further research should go beyond management school styled narrating, which tends to treat the whole country's transforming labour institutions as a "manageable" phenomenon. Instead, the contested relations and negotiating processes between the various actors in labour relations deserve more attention so as to provide meaningful analysis at the institutional and societal level.

2.6 Conclusion

In this chapter, I have reviewed the existing body of literature on Chinese labour management in general. As has been illustrated, on the one hand, this body of work is highly fragmented, because researchers have been limited by their own disciplinary backgrounds. On the other hand, lack of consensus on the use of terms, a poorly understood paradigm shift and rapid change, have meant that no strong base for institutional analysis regarding China's developmental trajectory has been established. However, it is still possible to identify the main pathways by

considering the institutional changes in social relations in workplaces. To answer the question “what is Chinese labour management/HRM?”, “culturalist” writers have resorted to quantitative methods in seeking indigenous cultural factors. while “institutional” researchers have tended to look at historical contexts so as to shed light on the extent the current work organisations are still influenced by the past, and to surmise what will be the future path of Chinese labour management.

Nevertheless, these management school writers still tend investigate specific issues pertinent to their own disciplinary backgrounds. Despite the wide ranging views in relation to the changing historical context in published articles, researchers would appear to have treated background and context merely as a narrative part, rather than a necessary component in their analysis (Cooke, 2009). Consequently, inquiries aimed at identifying who the actors are and how they interact within the emergent industrial system are still desperately needed to answer the “where to go next” question for China. In past decades, there have been debates on this issue that have focused on the nation’s emergent system and policy changes (Warner and Sek-Hong, 1999; Clarke, Lee and Li, 2004; Wu, 2012). However, it is necessary to update the knowledge on policies and laws to cover the 21st century, and what is more, qualitative insights into how the state’s strategy and policies are conducted through relations between firm managers and state agencies is still a gap to be filled.

In this research, the interaction that has resulted in both formal and informal labour management regulations is to be uncovered through in-depth inquiries deployed in local SOEs, which are enterprises that have received scant attention in previous studies. This inquiry will lead to two key outcomes: first, how the state has resolved the competing roles of national champion of global competence, whilst having to make compromises with local governments, who, though supporting it, also often resist its will so as to provide local benefits. Secondly, how the past reforms have led to a dynamic and complex state sector that is hybrid in terms of ownership and managing ways will be elicited. In light of the above, local state enterprises could well prove an interesting area to probe in terms whether the different actors negotiate, cooperate or bargain with each other. Furthermore,

the in-depth investigation into their history and current workplace practices will deepen understanding about what the future path of Chinese labour management might hold.

Chapter 3 The ongoing SOE reform: an overview of background

3.1 Reforming China's central-local relations: 1978-present

3.1.1 The 1978 "Truth Criteria Controversy": Set the right path to modernisation

The year 1978 is commonly regarded as a milestone year regarding China's reform. In that year, under the question of what was the direction of future China, everyone in the country, timidly, kept watch on the moves coming from the Beijing inner circle. In Chinese politics, texts from the central authorities are sacred. Any act would not be approved until meeting "*zhongyang jingshen*" (Central spirit), thereby reflecting central policy documents, which contained guideline suggestions to primary-level Party branches, rather than mandatory orders. As a result of a changed political orientation, China's open-up reform was initiated, thus signifying the abandonment of the Maoist class struggle philosophy.

The debate was triggered by two prominent factions, open-up reformists, led by Deng Xiaoping, and conservative Maoists, with Hua Guofeng at the helm. To keep the party regime stable in the aftermath of "cultural revolution", Hua, the former state president, promoted his slogan of the "Two Whatevers", which stood for "We will resolutely uphold whatever policy decisions Chairman Mao made, and unswervingly follow whatever instructions Chairman Mao gave". This stance was avidly supported by those who admired Maoist egalitarianism, and were also worried that the termination of the "Cultural Revolution" would also terminate socialist legacies built up since 1949.

This general line of these policies was strongly opposed by reformist politicians, such as Deng Xiaoping, Chen Yun and Hu Yaobang. An apparent reason for the reformists' opposition was that the "Two Whatevers" meant any vacillating from Chairman Mao's stance would lead to Deng's eternal expulsion from Beijing's power centre. If Deng's power had been removed, there could well have been a permanent lack of a voice strong enough to counterbalance the conservatives in Beijing. With no constraint of ideology, Deng and his staff were pragmatists. After

10 years of suppression in the anarchism caused by the “Cultural Revolution”, the reformists eagerly anticipated re-establishing their vision of China’s modernisation from the early time of the People’s Republic. However, they encountered a huge obstacle in the form of the ghost of Chairman Mao. They not only needed to wage a power struggle within the Politburo, for they also to win the ideological debate so as to gain widespread legitimacy.

On 10th May 1978, an article titled “Practice is the sole criterion for testing truth” was published in the “People’s Daily”, the state propaganda mouthpiece. It claimed that the Party’s general line had to be proven in practice for an extensive period of time before it would become the truth. “One of the basic principles of scientific socialism is that any theory needs to be subjected to being tested in practice.” This article triggered a great debate over the legitimacy of the “Two Whatevers” (*lianggefanshi*) in the Third Plenum of the 11th CCP Central Committee in December 1978. After a 36-day marathon of the “Central Working Conference”, a consensus was made to rehabilitate suppressed Party cadres from the “Cultural Revolution”. Accordingly, the “Two Whatevers” was defined as an “extreme leftist mistake” that was geared towards continuing Maoist “proletarian struggle”. “The 1978 Truth Criterion Controversy” paved the way for Deng’s fundamental shift towards opening-up reform.

3.1.2 Marketisation and deregulation: a pragmatic practice

There were lots of debates on the nature of Chinese economic transition in the last century. Apparently, China’s economic boom was accompanied by a tolerated widening the interregional gaps. That is, “Let part of the people get rich first” was part of Deng’s reformist philosophy, which contributed to the dramatic rise of south-east coastal regions. Some researchers have argued that the rapid pace of marketisation in coastal areas has actually intensified, while the others have pointed out that the decentralisation policies exempted restrictions on interregional resource transfer and hence, rural industrialisation was stimulated. Under of the ambiguous slogan of “establishing socialism of Chinese characteristics”, instructions on how to conduct marketisation reform were not given.

Decentralisation would appear to have been at the forefront for central government in the initial period of post-Mao reform. After the victory of the conservative Maoists in the power struggle, “socialism” and “Maoist” were redefined by Deng’s faction. When legitimating the new order after the 11th CCP central committee, Deng advocated focusing on the nature of a socialism concerned with “emancipating the productive forces” and “improving the economy”. In his speech to the 12th CCP central committee, 1982, the slogan of “combining the principle truth of Marxism with the Chinese context” was put forward and “being realistic” in achieving modernisation. The central authority’s claim after the great shift in 1978 concentrated on reorienting people’s inherent Maoist perception. Power was increasingly transferred from central to local, with centrally administrated entities being asked to seek their own way of development. A series of general lines suggested that reformists’ attempts at deregulation and decentralisation were to be implemented as a farewell to the old era of standing still and refusing to make progress owing to ideological constraints. In short, decentralisation was an ideological declaration rather than concern about alleviating burdens on central government.

3.1.3 Fiscal reform: reshaping central-local relations

The first notable change made in policy was in relation to fiscal reform. Before the reform, local governments had to turn over their revenues to the higher authorities, which constituted the Chinese hierarchical pyramid. Through the introduction of a contracting system, local governments were authorised to possess a certain portion of revenues and to formulate their own spending plans. The core principle of this reform was to activate the vitality of the local economy. It was the first time that the local governments confronted the market environment with fiscal power and their governing performance was closely linked with their skills in operating spending. In 1994, a tax-sharing system was adopted to realign the central-local relations in tax responsibilities by categorising taxation as: “central tax”; “local tax”; and “central-local sharing tax”. This reflected central government’s worry about the potential political risk brought by the

economic opening-up reform.⁴ Local governments then increased their influence in investment process. Regarding which, the percentage of capital construction investment in local government led enterprises increased from 40.6% to 59.8% between 1984 to 1994 (Wei, 2001, p. 11).

Changes to the central-local budgetary relationship were assumed to be signs of the growing power of the localities and declining central power (Chung, 1995). For some scholars, this fact suggests that limited power in relation to local governments is one of the key factors contributing the success of Chinese economy. However, others worried that this signified a risk of state disintegration, as the hierarchical fiscal system was one of the crucial elements of a unified Chinese state. In Wang Shaoguang's "A Report on the capacity of the Chinese State", he conveyed his own concern about the situation of "Strong local governments" and "Weak central government"⁵ (Lee, 2000). Given the situation whereby the decentralisation policy had caused so-called "fiscal decline", the central-local fiscal relationship rapidly became an area concerning the country's future political prospects.

During the period before tax-sharing reform in 1994, central-local fiscal relations entered an arbitrary period of budgetary sharing bargaining and the entire "decentralisation" process came as a result of the "Fiscal Contracting System" at the end of 1980s. According to the enacted contracting system, this not only allowed local governments to make their own budget, for it also granted them the right to overspend. The centre would also not issue subsidies, if locals reported shortages in revenue or over-expenditure. Clearly, this policy was a political signal

⁴ Zhu Rongji, the former premier in office from 1998 to 2003, conducted a tax-sharing system when he was the deputy premier responsible for fiscal and financial reforms. This was seen as central government's attempt to recentralise. Whilst this proved to be effective in relieving central government's financial difficulties from late 1993 to 1994, there has been growing criticism of his 1994 fiscal reform for its excessive weakening of local budgetary power, which led to local corruption and housing bubbles caused by local governments' excessive land development as an alternative approach to creating local incomes.

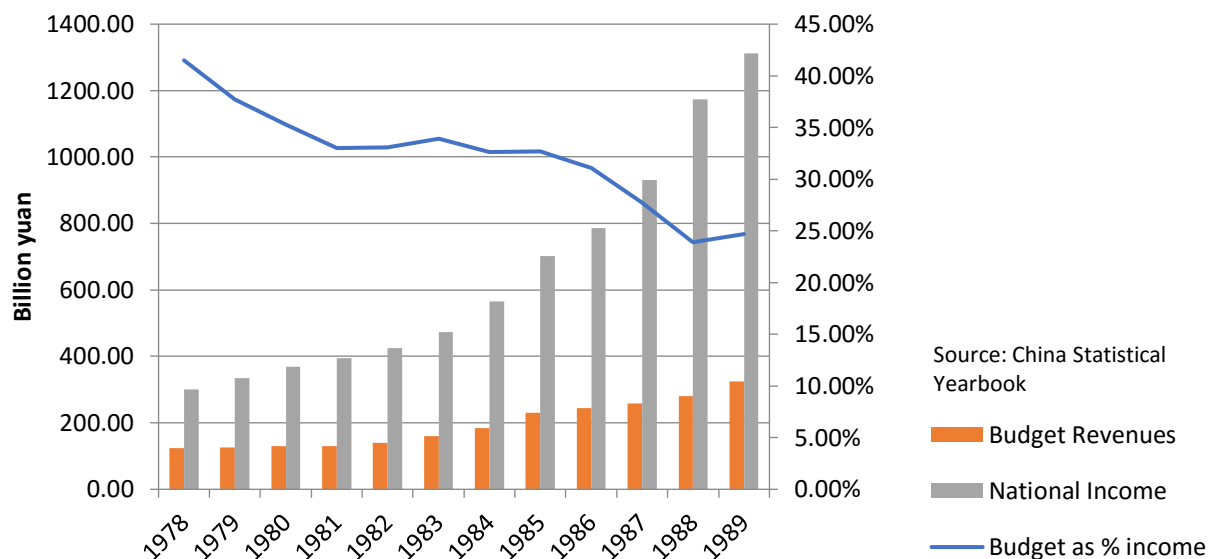
⁵ See Wang Shaoguang and Hu An'gang, *Jiaqiang zhongyang zhengfu zai shichang jingjizhuanxing zhong de zhudao zuoyong - guanyu Zhongguo guojia nengli de yanjiu baogao* (To Strengthen the Leading Role of the Central Government in the Transition to a Market Economy: A Research Report on China's State Capacity), 1993, mimeo.

of forcing local government to adapt to the new environment after the shifts in 1979. As Deng's reform philosophy of "step as big as you can", this tremendous change forced Chinese local governments to abandon the old Soviet-styled fiscal system, and to make a symbolic start in relation to power division in the central-local relationship. As its name implies, negotiations were made between the centre and locals to set up agreed ratios in budgetary revenues. After the agricultural "Land Contracting system" was seen as an impressive success in 1980, "contracting" became the most popular proposal for reforming all other areas. Originally, this was proposed to replace the Soviet-style agricultural regime of "People's Communes" by signing up a contract between peasants and village committees to farm a particular amount of crops on a piece of given land, which became as popular as the terms "reform" and "socialist market economy". However, contracting responsibility for the fiscal system has proved not to be as successful as its parallel in agriculture. Losing its control in industrial surpluses, the central government suffered as increasing deficit and a see-saw battle with local governments in bargaining for revenue shares, in which the centre attempted to capture as much as they could from profitable industries for the state treasury. This central-local tension was interpreted as a rising trend of "local protectionism" in the centre's official language, and moreover, led to provincial development becoming entrapped in unsustainable short-term investment (Wong, 1991). A widespread phenomenon was that local governments' "insider" culture often resulted in the centre becoming frustrated in the revenue sharing negotiations. Benefiting from non-transparency in budgetary revenues, local governments could, on the one hand, conceal their real balance and on the hand, they were able to request more subsidies from the centre.

Before the formal establishment of the "Fiscal Contracting Responsibility System" in the late 1980s, central government dominated the whole country's budget by formulating regulations that were vague in terms of their purpose and how they were to be implemented, which were adopted throughout the hierarchy of branches all over the country. In that period, generally acknowledged as one of "decentralisation", the centre engaged in provincial budget bargaining by issuing non-mandatory regulations, called "non-binding directives" or "reference targets".

Local revenue policies varied vastly at that time, as the centre had different requirements of the provinces. In fact, diverse provincial regulations have always been a mainstay approach the central authority when striving to alter the overall economic configuration. In Oksenberg and Tong's view (1991), by anatomising central-provincial relations in the era of "decentralisation", varied types of budgetary systems made up a hybrid fiscal model, rather than a straightforward "decentralised one". Between 1980 and 1982, there was an experimental fiscal regime of tax-sharing, which was subsequently formulated as a contracting system in the late 1980s. Whilst a highly decentralised regime of "Lump-Sum Transfer" was adopted at the same time in the southern coastal provinces, such as Guangdong and Fujian. This system allowed for full autonomy of the local budget and responsibility in balancing. The more general arrangement before the contracting system was "Dividing Revenue", which was implemented in 15 provinces from 1980-1982. After that, the contracting system was widely adopted in almost all provinces.

Figure 3-1 Budget Share of National Income: 1978-1989



In Figure 3-1, we can see that total national income increased rapidly from 1978 to 1989, while the contribution of the consolidated government budget share dropped by 15-20 per cent. Several factors could explain this decline. First of all,

the dramatic expansion of the non-state sector was one of the apparent reasons contributing to the shrinkage in central revenue; the process of marketisation was carried forward along with budgetary decentralisation. Moreover, China's reform not only resulted in foreign capital pouring into various sectors, for it also permitted local authorities entering previous state monopolised industries. The newly emerged competition brought by the market mechanism stimulated the realignment of relative prices, which led to profits suffering. Local governments taking over did not make industrial production more profitable to the centre; the total rate of return to capital fell nearly 3 per cent in large and medium enterprises between 1980 and 1985 and a staggering drop of 64.0% to 38.8% was witnessed for light industry. Moreover, from 1985 onwards, when the fiscal contracting system started to be widely adopted, the decline was even steeper. Specifically, the total return on fixed assets fell from 24.3% in 1980 to 22.4% in 1985, while between 1985 and 1989, the decline was from 22.4% to 17.5% (Wong, 1991, p. 695).

Central government's worry about its loss of control over local revenues was reflected in their concern regarding the "two ratios", the budgetary-to-GDP ratio and its own share of disposable revenue. In a television speech, Xiang Huaicheng, the former deputy Minister of Finance, pointed out China's lagging behind in the "international average" of the two ratios, which were 40 per cent and 60 per cent, respectively.⁶ (ibid) Up to 1993, central government had no agency for collecting revenue other than the State Bureau of Customs (SBC), which was in charge of the customs duties and the State Administration for Taxation, to which directly controlled SOEs were obliged to pay a substantial part of their profits. A significant change in the reform of the Tax-Sharing System (TSS) was made in 1993, with the creation of three tax categories: central taxes, central-local shared taxes and local taxes. (Finance and Economy Small Leading Group of the Central Committee of the CCP, 1994) The Central Tax Bureau was established to collect and control central tax revenue by its branches set up all around the country. In addition, the shared

⁶ Xiang pointed out that in most countries, the budgetary-to-GDP ratio was above 40 per cent and central government's share of disposable revenue exceeded 60 per cent.

tax was substantially expanded in size, including VAT (split as 75 per cent for the centre, 25 per cent for the locals), resource tax and securities trading stamp tax. On the other hand, the compromise that the central government made was to adopt a new system of “tax repayment” so as to win support from local governments, whilst it was still able to ensure that the centre received 70 per cent of any increase in consumption tax and 52.5 per cent of VAT increases.⁷

Not surprisingly, the implementation of “serving meals to different diners from different pots” immediately led to frustration in the provinces and the local authorities set collecting local revenue as their priority. In 1995, the central revenue collection only increased for 12 per cent, much less than the growth of local revenues, which was 29.2 per cent. The People’s Daily, the Party-owned media, warned that if central government was not able to achieve its revenue targets for VAT and consumption tax due to poor performance by local industry their tax repayment would not be delivered. Another fact that made central government belligerent, was that by the end of 1992, the EBF (extra-budgetary funds) had dramatically surged by 1100%, of which the amount was nearly 97.7% of the budgetary fund. In the official budget statement in 1996, the figures of central and local revenues were not given and instead, the poor fiscal performance of that year was presented in a euphemistic narration:

“...at present, difficulties and potential risks still exist in the state finances. The deficit in the central budget remains high, and the objective of reducing the deficit set in the Ninth Five-Year Plan will be difficult to achieve. Huge debts have been incurred in the central budget. Losses in taxation are still serious, Cases such as arbitrary tax reduction or exemption, tax evasion, tax fraud, refusal to pay taxes and taxes being in arrears frequently occur... The unauthorised establishment of funds and the collection of arbitrary charges are still common. The tax base is being seriously eroded by extra-budgetary charges. The diversion of state financial resources has not been checked, and

⁷ The repayment system worked with two components, the shortfall of revenue amount that a province suffered under the new system compared with retained revenue in 1993, which was under the formula: $PBR - LT - 0.25 * VAT$ (PBR is the province’s base retained revenue, LT is the province’s local tax revenue in 1993, and VAT is the VAT provincial revenue). The second component was 30 per cent of the total sum of increased central revenue from VAT and consumption tax from that province.

the issue of income distribution has not been straightened out..." (Zhang, 1999, pp. 135–136)

The government sought measures to drag EBF back under its control, including raising the centre's share of the securities trading stamp tax, establishing funds to use financial resources outside the government's budgetary plan and abolishing tax exemption for enterprises with foreign investment. Moreover, from 1997 onwards, EBFs started to be diverted to budgetary revenues. As the Rules on Tightening Management of Extra-budgetary Funds stated in 1996, the management of income and expenditure was to be separated, whereby the EBFs would be included in the budget, while spending would be managed by the administrative agencies that collected the funds.

In 2003, a decade since the adoption of tax-sharing reform, the budgetary-to-GDP ratio had risen from 12.6 per cent to 18.6 per cent and central government's share of disposable revenue grew from 39 per cent in 1993 to 54.6 per cent in 2003. This reform was considered as being down to the centre's willingness to draw the fiscal relation with locals back to the conventional centralised pattern (ibid). As worries regarding political disintegration grew, Zhu Rongji, the deputy Prime Minister, warned in 1993, "If the central revenue keeps declining, we will face our own collapse in 2000" (The 21st century Financial Report, 2004). The rising "crisis" was also explained as being a result of eroding the previously state monopolised sectors (Wong, 1991; Zhang, 1999). Even though there was controversy regarding the extent to which the falling state-owned sector affected the economy (As Wong has argued, the contracting system before 1994 was toxic and the deteriorating state sector was the victim of market reforms. While in Zhang's opinion, SOE failure was the main cause of local revenue decline, rather than growing local autonomy), a consensus was arrived at, one accepting that the decentralisation and marketisation in the 1980s left a considerable impact, which resulted in everyone fighting over a shrinking pie.

1979-1985	“Decentralisation”	Granted with certain autonomous power, local governments were encouraged to experiment with their own revenue policies, which varied vastly across provinces
1985-1992	Contracting system	A proposal finally accepted for unifying the messy situation of decentralisation. Central government claimed its revenue power by negotiating on the ratios of revenue shares with local governments
1993-present	Tax-sharing reform	“serving meals to different diners from different pots”: create three tax categories: central taxes, central-local shared taxes and local taxes

It is hard to give a precise answer to the question as to how big the Chinese state sector is. Contemporary observers have interpreted the Chinese economy as “the miracle of Chinese state capitalism”, while others, who focus on the marketisation reforms in China, point to the fast expansion of the private sector and the shrinkage of the state’s control. However, ironically, China’s “state-owned sector” is a contested concept, with the phrase has been used to analyse different contexts, disciplinary fields and economic entities. Since the reforms of ownership and the enterprise system proceeded at a dramatically rapid pace, difficulties emerged in categorisation of economic entities.

In official statistical data, state-owned enterprises are defined as the category that are totally state-funded. Corporations with mixed ownership, controlled by SOEs, government and public organisations, are excluded from this category. So, it is hard to estimate the contribution to GDP made by the enterprises, such as shareholding cooperative enterprises, joint-operation enterprises and limited liability corporations. The government sometimes uses the term of “state-owned and state-holding”, including the categories of “state-owned enterprise”, “of which the majority share belongs to SOEs, government or public organisations” and “the other SOEs”, for which the control is less direct. The latter can be vaguely defined as those firms with state owned shares representing less than 50% of the total.

In the China Statistical Yearbook for 2010 (CSY-2010), the China National Bureau of Statistics (CNBS) provided information on the state’s participation in “the other categories of enterprises”, but the specified list of enterprises in which state has a direct or indirect share was not given. According to an OECD report on the Chinese state sector (2009), state-owned non-tradable shares accounted for one-fifth of all shares that SOEs hold, which implies that the latter control considerable shares in shareholding enterprises. In addition, as the report further pointed out, SOEs are the ultimate owners of shareholding firms and limited liability corporations. Even though there has never been a separate category of “directly state funded”, according to the government, most firms are only partially owned by the SOEs or their subsidiaries, with the central authority being the majority shareholder.

Chinese SOEs are defined as enterprises for which all assets are owned by the state (National Bureau of Statistics 2002). Key areas in the state interests, such as military industries, power supply and petroleum industries, are strictly state-controlled in the form of centrally-owned SOEs, which are managed by four governmental organisations, the State-owned Assets Supervision and Administration Commission of the State Council (SASAC); China Banking Regulatory Commission (CBRC), China Insurance Regulatory Commission (CIRC), and the China Securities Regulatory Commission (CSRC), supervising state-owned financial institutions (OECD, 2009, p. 8). Moreover, central governmental ministries are also involved in the supervision of centrally-owned SOEs, including the: Ministry of Commerce, Ministry of Education and the Ministry of Science and Technology. These enterprises are of crucial importance in the Party's strategy of making a "socialist market economy" (ibid).

The private sector includes the entities invested in or controlled by people who hire workers for profit-making activities. The development of a domestic stock exchange and the surging number of firms in China have produced the illusion that pure private ownership is thriving. Officially reported, the non-state sector in fact, not only consists of pure domestic private ownership or direct foreign investment, for it also includes mixed entities of those SOEs that are partly involved in owning or managing themselves.

3.2 The making of modern enterprise institutions

SOE reform has witnessed a rough path. Owing to a gradual approach being adopted by the CCP, this reform has lagged behind other economic reforms in China in guaranteeing change that could keep up with other reforms to the financial system, labour market and social welfare.

The early research on SOE reform was focused on rethinking the drawbacks of the traditional enterprise system. As the state-centred system became challenged, the hottest issue discussed was how to reshape the relationship between the state and enterprises. A consensus made in early 1980s was that the latter should seek to become autonomous entities, rather than subordinates of the central

administration. However, rather than making clear the matter of ownership, the real purpose in the early time of reform was reviving the state-sector economy, which has been badly hit by the Cultural Revolution in 1970s. Whilst autonomy within enterprises increased and the management was much more independent, the ownership and corporate structure was not touched by the reforms during that period.

During the second stage, the late 1980s, the discussion turned to the managerial measures that were transforming enterprises into autonomous producers, who took responsibility for profits and losses as well as exercising self-restraint. There were two prominent patterns identified in relation to process of institutional creation. The first was the "enterprise contracting system", through which the government maintained, SOEs being run under contracts defining responsibility, rights and profits. The basic principle of making contracts is to keep separation between control and ownership. Moreover, workers' incomes and welfare depend on the enterprises' performance. Some researchers regard the contracting system as a creative achievement in making "socialism with Chinese characteristics". The other pattern was the share-holding system. This requires non-intervention from the state administration, which thus means the proposition of forming a capital market. This reflected the continuously increasing voice for marketisation at that time.

3.2.1 From ownership debate to "letting-go"

Since 1993, the divestiture of small SOEs has been undertaken to reduce state control. The objective of this has been to relieve the burden of local government, while making it competent in a market environment. To avoid loss-making as well as small and medium-sized SOEs becoming burdens of the state, a variety of modalities were used to put SOEs beyond the state's responsibility. Whilst the state claimed that enterprises were free to choose the form they wished to transfer into, creating share-holding co-operative enterprises was the dominant practice. For, the real intention behind this move towards improved performance was to maintain the existing "insider" management.

From 1996 onwards, these conversions went rapidly and by 1998, almost 80% of small SOEs had been transferred into one of these two forms. Central government did not set clear rules on the method of transferring, so local governments were left free to choose their own procedures. Consequently, diverse criteria were made across provinces, according to the different financial conditions. Some local governments tended to place more emphasis on attracting foreign and private investment, rather than depending on central government, while the developed areas, like Shanghai, attempted to reorganise enterprises whilst keeping the "insider" structures of SOEs. Such a method requires considerable financial support from the local government.

In 1998, a series of adverse effects of divestiture started to emerge, in particular, many small SOEs suffered profound asset stripping. Central government started to notice that its pragmatic non-interventionism to local SOEs reform had resulted in local governments being excessively unrestrained, leading to abuse by SOEs managers, which included forced sales of enterprise shares to workers or forced loans by workers to management, and the closure of loss-making factories without a labour dialogue. In addition, local governments wrote off the debts of re-organising enterprises in order to make them attractive to foreign investment. Whilst a small number of SOEs quickly delivered a positive shift in performance, many others struggled to survive due to insufficient government support and their incapability in attaining the bank loan standards. In response to these impacts caused by overheating divestiture, central government demanded local governments to slow down the pace and deploy more care when divesting small SOEs. However, the pace of change remained fast.

Not only was the divestiture in small SOEs ferociously pursued, for the "letting-go" proceeded at pace for medium SOEs. In 1999, the National People's Congress started to endorse transforming medium local SOEs. According to the command, most of enterprises would be converted into joint stock co-operatives or contract management firms, and the entire process was expected to be accomplished in the next 5-year plan. Even though the new policy avoided mentioning about

privatisation, it enabled employees to own enterprises' shares belonging to state assets.

3.2.2 Split-share reform and state assets capitalisation

When China established its own stock exchange in 1990, the share structure was split. The tradable shares included those of foreign invested entities as well as the first wave of privatised individuals and units, whilst the shares of state-owned assets were subjected to non-tradable. By the end of 2004, the market value of non-tradable shares predominated, standing at 1.62 trillion yuan in the A-shares market, in which the total value was 2.45 trillion yuan. Tradable shares' relative weak occupancy indicated a gradual strategy in relation to opening up the capital market. Notably, the establishment of the stock exchange has always been officially termed as "building a financial institution", rather than mentioning "capital", which helped to mask the fact that it was supporting the building a market economy that was embedded within a socialist regime.

Split share reform took place in 2005, which was not only seen as a symbol of establishing a more open stock exchange market, for this also led to tremendous changes for SOEs in terms of having to introduce a modern enterprise system. Enabling investors to cash in non-tradable shares of a company encouraged more private equity investment, which stimulated firms to shift their developing strategy by further accepting market regulations. Held by insiders and supervised by SASAC, the non-tradable shares used to be issued as a tool for raising capital to improve their balances and to relieve losses during transition. The shareholders were mainly the founders of the companies, business partners or their own employees. Since they were not tradable, the existing shareholders would never know the real share value, so they would not go public owing to the possibility of the shares being undervalued and hence, losing money. Consequently, the existing shareholders have had to seek other ways to make a profit by using their power to expand their holdings. One typical practice was lending considerable amounts of money to parent or affiliated companies and then forcing them to engage in an assets transaction. The implementation of the split share reform led to the SSE Composite Index surging from 998 points to 6,100 points in 18 months, the

unleashing the potential energy of non-tradable shares onto the capital market, whilst at the same time the process of SOE reform for the more advanced industries involved the founding of a stock sharing system, i.e. the state was engaging in these enterprises' reform through a capital market approach. From this it can be seen that a two-tier approach to market reform was being pursued.

In terms of official expression on concluding the enterprise reforms of the past decades, the period after 2003 was described as concentrating on "speeding up the construction of large and extra-large scale SOEs" to "make them become qualified players in international competition". Management divestiture from government administration was an initial step to achieving the "modern enterprise system" and the transition to a shareholding system led to the SASAC becoming the concentrated management unit of state-owned assets. Before the establishment of SASAC in 2003, the power and different functions for the reform were scattered across various governmental branches. The 16th CCP National Congress called for the unification of the powers of managing properties, human resources and developing strategies as well as establishing a new state assets management system with the central and local governments' role as that of sponsors. Treated as state-owned assets, the new regime pooled SOEs' resources to forge highly capitalised large companies, which engaged in financing the informal economy to generate grey profits in the period of "letting go", such as restaurants, property letting etc.

According to Li Rongrong, the former chief director of SASAC, by the end of 2004, 85% of middle and small-scaled SOEs had "finished restructuring" (China News, 2005), whereby the pillar state industries been replaced by over 1,000 newly-gone-public state-shareholding enterprises. Central government hailed the shrinkage of state-owned sector as a significant achievement in transforming production units to modern enterprises, whereby over 40 million SOE staff and workers had been cut. Since 2005, the keynote policy of "making an economy of hybrid ownership" has been becoming apparent, with the adoption of a shareholding system widely spreading in middle and small-scaled enterprises. This was the first time that the government had released statement setting clear

goals regarding the shaping of the pattern of economic development since Deng's "crossing a river by feeling his way over the stones" speech.

China's privatisation has witnessed a series of experimental attempts to test how a "socialist market economy could work". For over three decades, even though the nation has made one of the most impressive economical miracles in 20th century, the results of enterprise reform still remain controversial. The major reason is that the prices and potential effects of this confined state capitalism remain uncertain. The Economist (2011) analysed the current pattern of Chinese enterprises after thirty years of reform and reported that: Except for the highly central-controlled enterprises, the other forms of companies are under the shadow of the state in a variety of ways. This article listed three types of successful enterprises which are the outcomes of shareholding reforms: joint ventures, private companies with some state influence and companies backed by publicly owned investment funds. Without direct power of supervision and decision in relation to personnel, the latter two types were favoured by friendly policies and government supported private equities, venture-capital funds or even direct investment from local governments. While the real private sector has always been subjected to interference the SASAC led state capitalist system. Thus, the Chinese privatisation process could be described as one through which the government has sought subtle ways to extend its control rather than letting go.

3.2.3 The local state-owned enterprises

The central-local relations in China's political system

There is confusion in categorising the types of Chinese SOEs in much of the western literature. Local SOEs, the majority of China's state sector, are jointly governed by local SASACs and local governments, while "central" ones are directly under control of the central SASAC. In recent years, central SOEs have attracted a growing number of researchers, who have wanted to find explanations as to why China has had growing monopoly at the same time as active overseas investment. Regarding this attractiveness, these centrally governed enterprises are often mistakenly interpreted as representatives of China's reforming state sector.

Such an institutional arrangement has resulted from the CCP's guideline of "Grasping big and letting small go" as well as its subsequent bureaucratic adjustment that led to the birth of SASAC. After the financial crisis in 1997, the rate of profit in China's state sector drastically dropped. Central government initiated a series of restructuring agendas across industries. The major strategic industries, such as power supply, telecommunication, aviation and postal service were restructured into being large-scale corporations, in which executive managers and members of board room are nominated through the political process. In general, with a tight hold of political power since their creation, central SOEs were anticipated to perform the dual tasks of boosting growth and preventing capital loss in strategic sectors. Both of these two tasks matter for the CCP's ruling legitimisation.

Meanwhile, at the local level, local governments and local SASACs replicated these approaches by restructuring the key sector mentioned above. Not only were the Party-state's corporatised assets important for local level development, for these enterprises also proved to significant tax contributors to local governments. After the implementation of the 1994 tax-sharing system, central subsidies were only guaranteed for those local entities jointly owned by central government and the localities. There were two concerns regarding such institutional arrangement changes: firstly, during the pre-1994 period of the "grasping big and letting small go" policy, there was a growing worry of central government that there appeared to be a potential interest alliance between local government and local SOEs, which could possibly take advantage of liberalised local power so as to claim central subsidies for local SOEs by lying about their real profits. Also, because of the decreased central power over the supervision of local SOEs, lying about their performance was so prevalent that the central revenue from the localities witnessed a sharp decrease in the early 1990s. To gain back central government's control of the localities, Premier Zhu Rongji unveiled his tax-sharing system in 1994, in which a fixed amount of central revenue from the localities was guaranteed. Resulting from this, in terms of revenue, there was no room for a potential antagonistic government-enterprise alliance against the central power.

Secondly, given the fact that local power no longer had full dominance over profits generated from local state-owned entities, the development of local SOEs was not merely the sole issue relate to local governments' own interests, for rather, the new fiscal institutions enabled the central power to penetrate local-level decision making. In practice, such approaches ranged from jointly owning public-service units under a local SOE's name being guided by local governments on regulating joint-equity enterprises (central revenue was accrued tax from joint-equity enterprises, which commonly manifested themselves as subsidiaries of local SOEs) to investing in joint ventures established by local SOEs, etc.

New approaches to local government control in the era of reform (LGFP)

Since the implementation of tax-sharing system, there has been growing criticism over Zhu Rongji's daring reform of "fiscal federalism". One of the most popular critical arguments is that the CCP radically separated central/local revenues prior to setting a fixed administrative boundary between the two levels of government. This led to actual shrinkage of the local revenue source, while demands for local expenditure increased.

Taking the year 2004, for instance, local revenues accounted for 45% of the total revenue and 72% of expenditure was made by local governments. Regarding education spending, local governments spent approximately fourteen times more than the central government, whilst on social welfare, this figure was nearly seven times and on agricultural subsidies it was ten. In the recent fast booming decades, most of demand for spending on infrastructure has been met by local governments. Moreover, the localities have mimicked central government's fiscal "non-interventionism", thus leading to the situation of the taxation power diminishing in a downward spiral. As a result, local governments at their lowest levels, given their weaker capacity to collect taxes, have been subject to heavier burdens of expenditure than those higher up the chain of power. In general, the demand for local development spending has been surging, while income from taxation has not been sufficient to support this demand, because most of the revenue from the localities has been going to Beijing.

In light of this, during past few years, local governments have had to depend highly on different kinds of financial arrangements. Set up to enable them to circumvent the prohibition borrowing, their investment has been to great extent financed by land sales and bank financing. Many of their activities have even been invisible due to the lack of regulatory mechanisms and transparency. China's bond market, boosted by countless shadow lenders and banking bodies, pursued the task of raising funds for local government. In the financially stable regions, such as large cities like Shanghai or Guangzhou, Local Government Financing Platforms (LGFPs) have been organised in a more formal manner. These include large state-owned corporations set up to finance infrastructure construction and urban development, which is why lots of them are called "construction companies". In addition, they manage the troubled assets of badly performing local SOEs, representing local governments as borrowers so as to maintain those SOEs' capital chains by market-based means, rather than relying on government bail-outs.

To sum up, the growing problem of China's local debt is as a result of the rise of shadow banks and invisible financing platforms, which help local governments to deal with poor revenue streams partly caused by the prohibition of their fiscal power. These LGFPs, no matter whether formal or informal, have proved to be necessary for helping local SOEs to relieve their financial difficulties during transition. Particularly in well-developed regions, like Shanghai, large scale financing platforms performing as state-owned corporations have been successful examples of "alleviating the burden of state assets by leveraging the capital market". However, the possibility of replicating such a solution in the rest of China is questionable, as the LGFPs in financially unstable regions rely heavily on land sales and the demand for infrastructure construction.

[Piloting role of deepening reform to Shanghai's local-state sector](#)

Shanghai's latest moves regarding SOE reform are targeted on promoting a capital operating platform in the state sector. SASAC's earlier guidelines proposed distancing the state's power from enterprise management, whilst at the same time making the capital operation centralised. According to decisions made by the Party committee and municipal government in July 2014, two corporatised

financing platforms, Shanghai Guosheng Group (GSG) and Shanghai International Group Venture Capital Co, Ltd. (SIG), were to become the leading capital operators of Shanghai's local SOEs. This is reportedly the first step of the CCP's new wave of reforming SOEs, which is aimed at developing "mixed ownership" in the state sector. The success of Shanghai's pioneering experience in restructuring local state assets is being eagerly anticipated by Beijing's central authority, as it hopes to be able to replicate it across the country, thus making it the Xi Jinping administration's roadmap for state sector reform. Consequently, it would appear that the utilisation of state-owned capital platforms will be the CCP's main operating method, which will bring "mixed ownership" out of the ideological discourse.

Is China on the path of Temasek? This is the emerging question intriguing many observers. We can find lots of similarities between China's "mixed ownership proposal" and Singaporean pattern, ranging from establishing state-owned capital holding corporations to market-based corporate governance. The other question is what is SASAC's position in such a proposed framework? If SASAC remains, does that mean its' power will be strengthened to being an administrative body governing the giant capital holding corporations?

As for the possible impact at the local level, these reforming attempts, to a large extent, are aimed at tackling China's phenomenal local debt. Local SOEs in many regions are rather inefficient and stagnated compared with their counterparts in the financially well-performing city of Shanghai. In converting direct SOE control from the central authority to the leveraging of capital operation, it can be argued that this wave of SOE reform represents "Grasping big, letting small go" being exercised through financial means. This would appear to mean that China's "national team" of SOEs could no longer be guaranteed a future, for poorly-performing ones would be subject to the process of capital platforming and hence, most likely go to the wall, taken over or merged. Corporations, like GSG or SIG, might sell state assets that exhibit unsatisfactory quality.

No matter whether China copies the Temasek pattern or not, there will no doubt be a potential impact on workers. With the strengthened power of capital

operation in China's SOE reform, will the CCP redefine the state workforce in this updated version of state capitalism? There are few signs indicating that China would allow for regulated antagonistic industrial relations in place of top-down ones controlled by the Party's governing bodies. Given such an emerging discourse of capital impacting on the communist authoritarian regime, it will be interesting to see how the CCP decides to alter its own rhetoric as well as approaches so as to maintain its control over the rapidly changing local state sector in the near future.

3.3 “Modernising the labour force”: from “workers” to “human resource”

Employment relations in China have been closely related to the rapidly changing institutional context. The end of Cultural Revolution in 1976 left significant challenges for Chinese leaders in determining which path to follow. As part of the economic reform after the late 1970s aimed at replacing the “low productive”, “inefficient”, state sector, the new employment relations and personnel system not only meant the rolling back of the direct state's control over labour force and the shaping of a labour market, for it also signified enterprises' autonomy and the government's determination to end the planned state economy⁸. Thus, the changes took place in personnel system and employment strategy could be seen as being representative of the political trend.

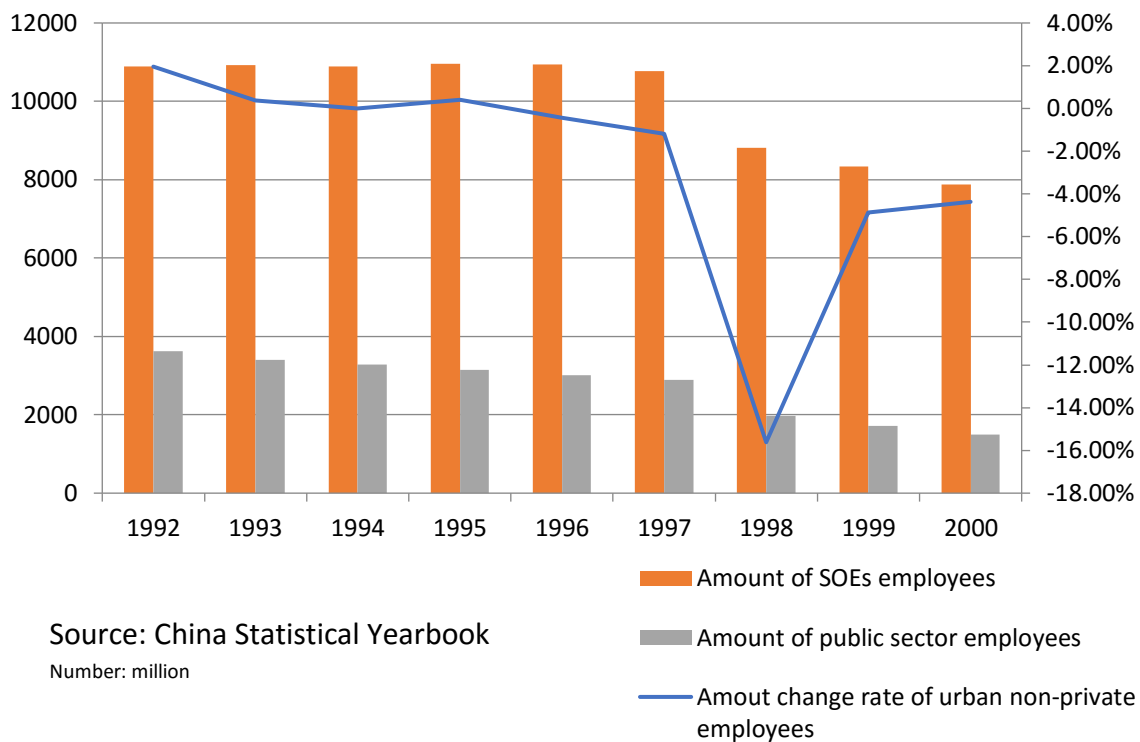
Before the reforms and the implementation of open policy, the personnel system was strictly under the control of the state's administrative configuration of local governmental branches. According to the occupational categorisation of the authentic socialist doctrine, the labour force were separately administrated by two ministries, the Ministry of Labour, which was in charge of the industrial labour force and other manual workers, whilst the Ministry of Personnel was responsible for white-collars and office clerks. The scale of total demand and supply was carefully planned, and the position that the state allocated for each individual was one of life-long job security. Even though staff were low paid, employers had to

⁸ See Gallagher (2004), on how China's labour practices reflect the state's underlying vision of a gradual reforming process without political transformation.

offer housing, health care, children's education, transportation and pensions; even employment to spouses. In general, the state was run as a supreme employer, who took responsibility as a "nanny" (Cooke, 2005).

The first wave of reform initiated in the 1980s and early 1990s attempted to keep the socialist administrative traditions along with introduction of modern enterprise management. However, a latter round of reform in mid-1990s led to mass laying-off of workers, with enterprises having to transform themselves into being more efficiency-oriented and performance-linked. In 1997, the Prime Minister Zhu Rongji proposed giving state-owned enterprises three years to sort themselves out no matter what approach was undertaken, which meant that sacking millions of low-skilled workers who were unqualified in the labour market was acceptable (The Economist, 1998). At the same time, state banks were also given three years to deal with their bad loans in order to make ready for commercial-purposed lending. The state-allocated housing system was cancelled one year after that, had constituted an essential element of socialist job security. Mr Zhu once stated that one-third of the current number of SOE employees would be sufficient to keep the enterprises performing well (Zhu, Kissinger and Schmidt, 2015). One year after the most radical privatisation policies were carried out in 1997, the numbers of the labour force in the SOEs and public sector had dramatically dropped by almost twenty times more than through the previous year's reductions. For the first time, Chinese economic reform appeared to be radical and undisguised in terms of carrying out privatisation, which was not only reflected in the data, but also conveyed through official statements.

Figure 3-2 Changing numbers of urban non-private employees, 1992-2000



After eliminating the low skilled “iron rice bowl” workforce, the SOEs introduced a new HR policy to increase productivity so as to meet the standards of a “modern enterprise system”. Firstly, a contract system was implemented as a legitimate approach to watering down the “life-long” working mentality. It both offered freedom of choice for firms and employees in entering and terminating the working relationship. Through the personnel legislation in the 1992 and 1994 Labour Reform, which was also called the “Three Systems Reform”, the contract system was legitimised along with a performance-related reward system and contributory social security (Warner, 2004). Secondly, the payment system was adjusted to make differentials regarding skill requirements. Under the new policy, wage levels were fixed according to the budget, with this being dependent upon an enterprise’s performance. That is, a firm could only increase wages if their profit was sufficient for them to do so, which would come improved productivity.

This change was aimed at stimulating employee commitment and involvement in their workplace as well as encouraging them to retrain themselves so as to keep up with new skill demands. Thirdly, many enterprises have been focusing on developing human resource management. However, most employee training is still initiated by the state sector. Foreign direct investment and successful experience of establishing joint ventures to inject the blood of western management into SOEs have inspired Chinese policy makers to follow their way.⁹ That is, now the SOEs are encouraging their young professional employees to take up training as they expect them to develop their management careers (see Hoffman, 2006). As a mean of getting enterprises to engage in worldwide competition, well-designed career prospects packages are offered to attract college graduates from the labour market.

However, regarding most small and medium-sized enterprises, they have made few attempts at deploying long-term training projects. Instead, with limited resources and government support, their managers aim at short-term profit making with little prospect of development being offered to the labour force, who then react by delivering a high level of turnover. This is one of the major effects in labour relations caused by central government's "letting go" policy. That is, large SOEs have been restructured by being able injecting sufficient governmental support, while smaller ones have remained in the unregulated private sector. With the weakening power of the traditional "workers' congress" in enterprises, the privatisation in 1990s unleashed untameable new disciplines, such as tighter budget control and job insecurity (Taylor, 2002). Moreover, high turnover has made it hard for trade unions to engage in these enterprises owing to the lack of a collective bargaining consciousness.¹⁰

⁹ See Warner (1987), discussing how the term "scientific management" is used to imply the application of Western style management and managerial skills.

¹⁰ Trade unionism in privatisation will be discussed in a later part of the thesis. The power of the trade union has not only shrunk in small and medium-sized enterprises, but also in large and well-performed SOEs. Even though the contract system literally clarifies the equal employee/management relations, voice representation still suffers under the professional obedience required by HRM.

As for those who were “eliminated”, since the government was controlling the gradual reforming process carefully, the term “laid-off” (*xiagang*) was used in terms of describing the price of transforming, rather than as “unemployment”. This is based on the socialist notion that the state, playing the role of supreme employer, is obliged to maintain full employment (see Gallagher, 2009). According to an official explanation, being “laid-off”, is a social phenomenon that happens when the state is unable to allocate posts to the surplus labour force, which is emphasised as being “inevitable” during the “modern” transformation of SOEs¹¹.

Even though the substitution of the new labour force for the old was strictly controlled by the Party- state so that sudden privatisation would not lead state-sector worker unrest, the “laying-off” policy still triggered grievances about what was perceived as the “state’s betrayal”. There are still a large number of E-petitions advocating higher pensions for unemployed state workers. In one of them (Petition No.24925, 2012), the appeal is that “Only the state should bear the price of reform, not our fellow workers who tamely followed the Party, and devoted their whole life to the Party...Even redeployment for over 50 years old workers will be very difficult, so hereby we request the government to offer more allowance to those who need help!”. The government has always been cautious when dealing with the redeployment of laid-off state workers. When the “policy-mandated policy” was first adopted in 1997, enterprises were required put priority into spending the incomes from Land Use Rights transfer for redeploying workers and were ordered to pay off immediately all the loans from workers that were used to help the enterprises survive transition (The State Council, 1993). Skill training was offered according to the new demands emerging in relation to job vacancies. On the one hand, the enterprises technically transformed themselves to being more adaptive to a “modern” labour market, whilst on the other, the managers tried to control the size of the newly recruited labour force in order to leave sufficient posts for retrained old workers. For the successful ones,

¹¹ See the 1998 directive document, jointly issued by the CCP central committee and the State Council, addressing the issues of SOE laid-off workers’ minimum standard of life and opportunities of reemployment (“中共中央、国务院关于切实做好国有企业下岗职工基本生活保障和再就业工作的通知”, 9-Jun-1998)

this process of substitution happened gradually with full government support, with their being persuaded to take old worker early retirement in exchange for an attractive severance package. However, others were suddenly “laid-off” in accordance with the radical central government guideline on “picking up the pace to establish a modern enterprise system” as this was perceived as being the only way to achieve “a big loop” of SOE performance (Jin, 2011).

From 1996 to 2001, the accumulative total number of laid-off workers was nearly 25 million and the reported figure, admittedly by a different metric, was 14 million in 2002¹². From 2001 onwards, the policy of the “converging two rails” was carried out in order to terminate the split unemployment system, making non-state-institutional job loss and being “laid-off” integrated under a new unified institution. An important reason why redeployment gradually stopped being the main focus of “modernising” the labour market was because the influx of migrant workers was having a significant impact on the structure of labour force. Due to their advantages in terms of age and well-trained job skills, migrant workers began constantly to squeeze unemployed state workers out of the low-end labour market. Without connection to the past working unit (“Danwei”) and lack of opportunities to be transformed so as to be able to adapt to the labour market, jobless “old labour” became the “forgotten generation”. Public concern transferred to proper treatment and working conditions for rural migrant “new labour” (Shen, 2006). This led to the low-end labour market becoming segmented. Shen (ibid) revealed two distinguished contexts of working class shaping between the “old” state workers and “new” migrant workers: “New labour” is the newly-transformed industrial workers from rural population, whose working class consciousness, following the classical “Marxian model”, was shaped through the process of transferring from a rural region into the urban labour market. On the other hand, “old labour” was expelled from the socialist factory regime in which high job security was granted, thus having to be job seekers. As Yuan analysed, in terms of class consciousness, these two types of labour force have been much differentiated: for “new labour”, the consciousness was directly rooted in their sudden exposure

¹² National Statistical Book from 1996-2007

to capitalised labour relations; being subjected to the intensively controlled production and institutional human resource management, which was used to regulate the labour force. While regarding the state-sector “old labour”, a “proletarianisation” model would appear to be more apt for providing understanding of their vulnerable role, because a strong sense of class and representation were absent in the socialist factory regime until the labour market substitution of new workers for old.

The staff in the civil service and public sectors were also affected by the policy shift towards achieving “modernisation”, although not as radically as what happened to the state-sector workers. The “civil servants” are normally those who are hired to work as administrative clerks. Unlike in other post-communist countries, which had witnessed civil servants working under the socialist regime suffering from job loss due to the political shockwaves, the Chinese civil service sector has retained its stability and has kept offering attractive working opportunities to well-educated young job seekers. Socially regarded as admirable and decent, civil service jobs, not only provide opportunities to step into officialdom (“*shitu*” or “*guanchang*”), for they also offer considerable material rewards from “grey incomes” (Cooke, 2005). Moreover, given that comparatively higher security than other jobs available in the labour market is offered, jobs in civil service are often seen as the continuity of “iron rice bowl” mentality. Whilst the wage is not always satisfied for many newly-hired employees who are less senior, high reputation and stable working conditions are attractive enough to university graduates who seek prestigious social status more than affluent material rewards.

The personnel system in the civil service is always stable, because of government’s handling of reform needed to ensure that the Party administration was immune from the impact of the rapidly reformed economy. Despite there having been several reforms undertaken in relation to personnel after the communist regime was founded in 1949, only the latest two were aimed at cutting down the number of administrative branches and offices. Also, directed by Mr Zhu, the radical reformist prime minister, his ambition of institution restructuring to the personnel system of the civil service was pursued. By the end of 1999, with their

working units being axed, over 3 million civil servants faced being laid-off. As The Economist analysed (1998, p. 83), along with millions of workers subjected to laid-off in the SOEs, this wave of reform appeared to be a signal of the government's determined battle against bloated bureaucracy and corruption.

Laid-off staff were required to acquire new jobs within three years, during which time their old working unit would maintain their wages and welfare as well as offering assistance packages, including guidance and necessary skill training (Solinger, 2009, p. 452). Not being transferred to the other organisations, as had happened before in the 1950s to 1960s, they were encouraged to seek new careers in SOEs. The financial assistance was even more remunerative, if the laid-off staff accepted working in a poor area or started a new business (ibid).

New elements of human resources management were introduced in the civil service. One of the apparent changes was recruitment being opened up to the public, rather than only university graduates and young people for nepotistic reasons being engaged. Moreover, the entry requirement has been raised through the addition of an examination system, an important tradition for selecting political elites in other sectors, which the civil service had hitherto not been subject to.¹³ This was because it was perceived that the general public would accept that entry into the service was no longer subject to nepotism, a long term view that was widely held and that a meritocratic system was being introduced (see Chen *et al.*, 2015; Zhang, 2015). The other important change was that both new recruits and old staff in post were required to accept compulsory training. A series of training courses was provided, ranging from finance to accounting, law, taxation, IT skills and to foreign languages. Emphasising the role shift of governmental functions from "functional control" to "social administration" and "public service" (Zhang, Jia and Gu, 2012), the government started to realise that

¹³ Even before the People's Republic of China, when Sun Yat-sen, the founding father of Nationalists, introduced American pattern of tripartite political system, he proposed a unique Chinese variant, which was a "constitution of five powers". The power of supervising the examination was one of the additional two and the other was "the power of impeachment".

its old cadres had been lagging behind in updating the knowledge, such that they were not qualified for “modernising” the civil service (ibid).

Another considerable change took place in the public sector (*shiye danwei*). Funded by the fixed governmental expenditure and controlled by the state, China’s public sector was mainly those organisations or institutions providing public goods and services covering culture, education and health. Unlike the state sector and civil service in which the radical policies were quickly adopted, the public sector lagged behind in terms of the progress of personnel reform. The number of employees has remained stable since the beginning of reform. Given that public institutions are the government’s main measure for controlling the employment of intellectuals and professional talents, any radical attempt to restructure employment relation in public sector, would have been deemed as being too risky. Thus, both the number of public sectors employees and their wages have been steadily growing in the past two decades.

As a slow reforming sector of employment and hence, not being particularly attractive to researchers, there is scant literature pertaining to it. However, there is much public concern in the higher educational institutions, for as Cooke (2005) pointed out, high political sensitivity has led the government to consider it as a priority for reform rather than other sub-sectors. Also, there are a growing number of reports claiming that the quality of Chinese universities is lagging behind world’s top tier, owing to a rigid personnel system that has been constraining academic improvement. When Beijing University released its draft plan for reform in 2003, as Cooke contended (ibid), it appeared to signal how this flagship university would be radically changed, with the implication being that this agenda would rolled out across the HE sector, The main aspects identified for changing were as follows:

- Enhance inter-grade mobility;
- Institute a “last-number” system to eliminate individuals or study groups with poor performance;
- Introduce competition from the external market;

- Restrict the university's own graduates from being directly recruited;
- Set up a panel of professors to judge post appointments and job title promotion.

All of the above were aimed at enhancing staff performance and to encourage competition, but they have drawn criticism for squeezing the opportunities of junior academics¹⁴. The senior posts were proposed to be permanent, while the junior ones were not, so that meant junior and middle ranked staff not only had to work with high insecurity, for it also provided them with little or no voice in the decision making process.

In general, the personnel reforms in all these sectors share similar features: downsizing, performance evaluation, competitive promotion, increasing post security and the introduction of contracting systems. Along with opening up to the external labour market, HRM was widely adopted to attract talents in transforming enterprises and to ensure that working units became “modern”. However, the government faced the go-or-stay dilemma of the staff in the old posts. In an editorial of People's Daily, the Party's mouthpiece, it was claimed that “keeping stability is as important as introducing ‘fresh blood’ into the personnel system” (People's Daily, 2000). The unskilled state-sector workers were eliminated, while the intellectuals in the higher education system were given stable posts in the reform, thus demonstrating how the Party-state strove to execute reform through a balanced stick and carrot approach, so as to avoid widespread dissent.

¹⁴ The issue has drawn extensive attentions from both press and academia. For example, see The Paper article published on 09.11.2016 – “The Depressed Teachers” (in Chinese, “大学“失意”青年教师记：有的未升副教授被炒，有的拼命代课”); see Tian and her colleagues' empirical study (2016) on the “publish-or-perish” culture in Chinese universities. Also see Lian Si's 2012 bestseller publication “Worker Bees” (in Chinese, “工蜂”), in which the author sheds his insider view on Chinese junior scholars' life experiences.

Chapter 4 “Casing”cases – the rationale and layout of methodological design

4.1 Extended case study method

4.1.1 *Why a case study? What do cases do?*

Compared to other research approaches, a case study offers much more openness for unexpected stories, which thus provides opportunities to unveil complex social realities, such as interactions and relationships. “Cases” are not “samples”, which are assumed to reflect causality lying in grand reality, but rather, can be defined as entities with certain widely accepted boundaries, such as organisations and nation-states or “parallel and contrasting event sequences” (Abbott, 1992). Thus, what needs to be revealed from the chosen cases should be facts about how SOEs and their LM changes relate to factors embedded in the social and historical changes of Party-led China, i.e. what has been driving the evolution of its industrial relations. Such concerns are usually excluded from sampling-oriented research since there are fixed presumptions about narrowed units of analysis and also, quantitative narratives reject any form of deviancy and contingencies from narratives in order to keep the “representativeness” of the sample. Consequently, case-oriented research will open the gate of depth and richness of the empirical world, in the current endeavour in the context of contemporary China, where the transformations of corporates and labour management are never isolated realities, but rather, the results of social and political changes. In sum, the research method for unpacking such complexity requires opportunities for “out of box” and possibly “merging paradigms”, which are not what sampling-oriented methods can offer.

Much prior case study research on management issues in China has been carried out under a positivist stance and hence, has resulted in descriptions of cases as examples of causality¹⁵. Despite the complex nature of China’s context having been stressed prior to their analysis and a case study method being adopted, the

¹⁵ According to Liang and her colleagues survey of Chinese human resource management research in China (2010), quantitative empirical researches dominate the body of literature as 54% of the studies adopted the quantitative research method.

richness of the “stories” has remained dormant under illustrations of the relations between variables. This is especially so in the literature discussing the nature of “China’s HRM” or that seeking to answer what are the “indigenous features of China’s HRM”. Researchers have drawn upon western models to establish hypotheses only to conclude that, unsurprisingly, China is a deviant case. Such a deductive approach has proven its effectiveness in offering HRM researchers chances to examine the results of applying western HRM practices in Chinese workplaces, and has also been helpful in expanding universal HRM theories by involving those “Chinese factors” in existing analytical frameworks. For a non-academic, business-related audience, it might be helpful in terms of providing practical business solutions as “Chinese HRM” theories treat management in China as a variant of universal capitalist-led managerialism. However, without qualitative understanding of the decision making mechanism in those workplaces, the positivist studies could be accused of failing to grasp in full the social and political meaning of the new managing measures that exist in Chinese industry. Even management scholars themselves have acknowledged the limitation: the number of “variables” is always increasing and thus, hypothesis-led research turns out to be either explaining trivial facts, or generating “incomplete or incompatible theories” (Warner, 2012b, p. 3959).

For social scientists who do seek to unveil complexity, what has been neglected from the research described above matters. As Abbott argued in his notes (1992, p. 53) for case study researchers, cases should be regarded as “agents”, which let researchers pay attention to contingencies in narratives, rather than being a “one-step” decision process hiding all the particularities in parameters of calculation. Mitchell also pointed out that it is not necessary for social researchers to put their focus on giving answers about “representativeness” with “statistical inference”. A fundamental error made by many previous case study researchers, including many social scientists, is attempting to explore China’s “uniqueness” by asking questions like “how can we know this case is typical?” or “how many sub-categories exist?” and “how do we select cases for generalising their impacts to current Chinese managing ways?” As Mitchell wrote (1983, p. 188), the question about representativeness “betrays a confusion between the procedures

appropriate in making inferences from statistical data and those appropriate to the study of an idiosyncratic combination of elements or events which constitute a ‘case’” (Mitchell, 1983, p. 194). If one observed from a 1990s SOE that there was mass power abuse among middle-level managers, then the “average” SOE would represent power abuse and corruption in management, which demonstrates how it is erroneous to use statistical inference for building a hypothesis based on sampling logic.

4.1.2 Building a theoretical framework with abductive reasoning

In light of the above, asking questions about cases’ representativeness will result in falling into the trap of unwittingly borrowing statistical inference, thereby losing each case’s unique dynamic with regards to illuminating processes. Whilst there is no consensus about the solution for clarifying such an ambiguity in the social science community, most researchers agree that theories made from case studies should be built upon through abductive reasoning rather than induction. In other words, it can never be known at the outset what “good” cases with strong generalizability can be obtained. Also, we cannot know how many cases do we need to have until the very end of research. Case study is arguably a refining process of constantly producing good assumptions and a priori constructs for further cases and such abductive reasoning starts from building a framework of conceptions based upon pre-existing theories.

One tradition of sociological methodology, is that reflexivity has been widely recognised as the basis of a participating method¹⁶. For as Burawoy stressed (2009, p. 20), “reflexive science deploys multiple dialogues to reach explanations of empirical phenomena”. Such dialogues, made between observers and the

¹⁶ In Talcot Parsons’s sociology, reflexivity refers to the capacity of social actors in modern societies to be able to give accounts of their actions (Lash, 2003). The term was further developed by Anthony Giddens, who argues that one of the main characteristics of late modernity is a heightened importance of reflexivity in this sense, both at the individual and the societal level (Beck, Giddens and Lash, 1994). In the sense of reflexive sociology, reflexivity is understood as strategic agenda (Bourdieu, 1990); it is seen as a tool to demystify sociology as a power saturated social practice.

empirical world, are based on previous dialogues to create new expansions on local contexts, and embedded within a further dialogue to explain more about how local processes are influenced by external factors. Different to the positivist approach, the objectivity of reflexive science is not expanded through accurate mapping, but rather, through the growth of knowledge. Inheriting the Weberian tradition of methodology, Burawoy and many other “Berkeley” scholars borrowed pre-existing theories to support proposed universal narratives in their own experiences of ethnography.

Based on universal theories, Burawoy proposed a perspective of case study research (1998) that focuses on how local conditions are determined by external forces. Regarding this study, given that the existing knowledge about China’s Party-related corporate entities has suggested the existence of the invisible but powerful hand of the Party, it could be assumed that there is an overall mechanism at large controlling and shaping how those enterprises are governed. Thus, in terms of explaining the link between particular work organisations as cases and their embedded social-political environment, Burawoy’s insight is applicable in this research. Despite Burawoy not giving a clear answer on the basis of generalisation, it is clear that abductive logic is essential in the generalising process to understand societal conceptions at the macro level, whilst at the same time giving meaning to each observed case. Guided by a priori model, the empirical knowledge we learn from particular cases is expected to, in turn, shape a reflexive view in relation to the model.

The predicaments at the beginning of case studies in this research remain unsolved with Burawoy’s version of an extended case study: what kind of case do we need to start and how many further cases do we need? How do I know the case I have chosen is typical for addressing the questions about local SOEs and their LM? If a model regarding a grand sociological explanation of contemporary China was adopted prior to the empirical inquiry in this study, similar to what Berkeley scholars did when they used their neo-Marxist and globalisation perspectives as preliminary frameworks for their own ethnographies, the ultimate goal of this study would be merely supplementing existing theories. Since such a reflexive

process would keep directing researchers to look back to the a priori model, the preliminary framework would become a reflexive trap limiting them within a specific paradigm.

The conceptual framework needed in this research for initiating the case study should: 1) align with the research questions, which pertain to issues about the rule making process; and 2) limit the constructs and conceptions at the medium-range. Also, this framework should be used as the basis for guiding the focus of abduction, rather than solidly suggesting a certain conceptual model.

Consequently, it is inappropriate to regard the preliminary framework as the foundation for ultimately constructing theories or bringing representativeness, but rather as guidance so as to make good assumptions (Mitchell, 1983). In this continuous learning process, what case study researchers should pay attention to is whether the emerging phenomena from earlier cases would be echoed by further case studies.

4.1.3 Seeking a preliminary framework for China's context

Using abductive reasoning to develop an IR theoretical framework for China's context is not easy, not only because Chinese society is now highly complex and heterogenous, but also scholars' varied foci across disciplines have created isolated paradigms. Such splintered voices, whilst they sometimes are in agreement, by failing to work in a collaborative way have been unable to reach a consensus on the changing reality regarding labour management as a result of the social-political transformation of the state. Even in relation to the state sector, the Party-state's economic stronghold, understanding the social and political meaning the hybrid status resulting SOEs' managerial fusion of the communist legacy and western ways has been neglected. When political scientists have attempted to explore the underlying pattern of the CCP led governance and its meaning for China' modernisation, labour management researchers have failed to borrow this kind of wisdom into their own analytical framework, thus leaving a tremendous gap between the understandings of how the Party-state works and knowledge

about specific firm-level managing approaches adopted by Party-state led enterprises.

Since the very essence of abductive reasoning is to create “good” assumptions or a priori constructs in order to guide inquiry with paradigmatic integration, the conceptual framework, in which the inquiring foci are to be rooted, needs to be built on the grounds that: 1) it will be ontologically integrated with the aim of the study and 2) the framework will have a high degree of flexibility in explaining potential variants and conflicts observed from the inquiry. As has been discussed in the literature review, most existing theories about China’s PA/IR/ER/LM or HRM have either simply provided a snapshot of social reality during certain reforming stages of the nation’s contemporary history, thus failing to account for chronical changes, or were constrained by empirical limitations owing to the search for unattainable generalisability in the Chinese. It could be argued that both of these limitations are as a result of the imbalanced development over three decades, which has created, according to Sun Liping’s insight (2004), a “fractured society”¹⁷, in which phenomena might not be necessarily support an “all China” generalisation. In order to avoid such an over-generalising trap, the conceptual framework needed in this study should support the presumption of the importance of dynamic relationships between various actors in forming the current IR of the state sector, especially in relation to the Party-state’s role, which was either totally neglected or merely accepted as a fact, but never clearly explained. In addition, this framework should be used as a guide to direct the focus rather than being an actual pre-existing theory prepared for testing; otherwise this method design would lose its reflexive dynamic and become one that resembles a hypothesis-based study from the very beginning. However, the conceptual framework does serve as a “mould” of an actual preliminary theory with an accepted paradigm after empirical investigation. The intention is that this will subsequently be used as a guide for further empirical focusing as well as the setting of hypotheses.

¹⁷ Sun cautions that whilst a number of parallel realities have emerged from social-political reform, this does not mean that China has become a pluralist society

Dunlop's model (1958) of industrial relations systems

Dunlop's publication in 1958, *"Industrial Relations Systems"*, was a major development in IR research, which helped to make industrial relations a discipline in its own right. Divested from other disciplines, such as politics, economy, sociology and psychology, industrial relations it was argued, pertained to the study of the establishment and administration of rules. Beyond the original horizon of collective bargaining, Dunlop offered a "system" model illustrating industrial relations facts that enable researchers to bring theoretical and analytical methods beyond the original historical and descriptive methods (Blain and Gennard, 1970). Influenced by structural functionalist sociologists, such as Parsons and Smelser, Dunlop argued that industrial relations could be seen as a type of social system, equivalent to the sub-system of the economy. Together with the sub-system of politics, industrial relations and the economy are viewed as distinctive sub-systems that comprise the total social system.

Dunlop's classic modeling attracts me for two reasons. First, the focus of this perspective is on illuminating the nature of industrial relations as systematic rule-making processes. Explained as an independent social system, the conceptual framework entails a pluralist system consisting of three independent actors: the state, management and workforces. It holds that representatives of actors and patterns of rule-making diversify in different ways across countries, such that different IR models are comparable through examining the differences in labour-management relations. When undertaking this, there are three major factors to be considered:

- 1) Economic, technological or social-political environment;
- 2) Characteristics and interactions of the actors;
- 3) Rules generated from these interactions that govern the employment relationship.

Dunlop's theory has a long history of being misunderstood as the ultimate conceptual model for interpreting all kinds of IR in the capitalist world, by both his followers and critics. It should be acknowledged that its most significant contributions are epistemological and methodological. Despite it appearing to be

increasingly difficult to explain emerging phenomena within this framework, it is still widely accepted that IR in an industrial nation is formed in a pluralistic manner. During the decades after it was proposed, this framework served as backbone of many theories in explaining the social-political process of IR forming in various industrial nations. Only after the rise of neo-liberalism since 1980s, along with shrinking power of trade unions in western countries and their shifting political agenda, did the predictability of Dunlop's model become questionable. However, right back to the very beginning, the theory was proposed as a framework of research focus, rather than an explanatory one for covering all possible IR patterns in market economies.

Back to the start point of abduction in China's context, even though the real face of SOEs' labour management is still veiled under the realities of hybrid institutions, there is still the basic knowledge that the governance of the Party-regime is at the core of forming IR in the state sector as well as the country's urban labour market. China's changing nature of a market economy, not only contrasts with pre-existing knowledge regarding a Leninist state, for it also makes it difficult to make comparisons with IR systems in any other industrial countries. However, at least regarding two aspects, Dunlop's model can be set as the entry point for the current research: 1) a perspective that includes the state and its relations with other parties; and 2) concerns about the rule-making process. Empirically, this framework leads to the interest in identifying who is involved in decision making and how rules are made in shaping the current workplaces of local SOEs in Shanghai.

[A modified framework](#)

Next, the analytical framework of this study requires a scope that enables investigation of the dynamic of interactions between those actors. Dunlop's system approach does consider the fact that actors in IR relations are agents influenced by the external environment, and that the process of rule creation is also governed by economical, technological and institutional factors. However, such a system approach has been criticised for omitting behavioural variables, such as motivations, perceptions and attitudes (Bain and Clegg, 1974). Dunlop's

notion of “system”, which was closely linked to the Parsonian analysis of the social system in 1950s America, was also questioned, because he suggested that a stable industrial relations system is integrated by the common ideology held by actors, such that it can be engineered to avoid conflicts and instability.

In China’s context, it is obvious that the CCP’s ideological influence is predominant regarding various aspects of industrial relations, but it is inappropriate to perceive a uniform pattern of the party-state’s control (Lüthje, Luo and Zhang, 2013). In doing so, this would mean falling into the trap of repeating the CCP’s official rhetoric it governs through an all embracing uniform system. Instead, an analytical framework is required that allows for the illumination of the dynamics of the complex relationship between the state, management and labour, one which will also help generate meaningful theories about the party-state’s path of industrial relations. In light of these matters, it is necessary to look beyond the system approach in terms of analysing collisions and cooperation in labour-management relations. In addition, the framework should be open to the possibility that there is a trend towards a pluralistic relationship in workplaces. In terms of providing a non-all-embracing, but critical theory, Alan Fox’s unitary/pluralistic frames of reference (Fox, 1973, cited by Ackers, 2014, p. 8) can help to de-mystify power relations in the workplace. Since split interests have seemingly emerged in the wake of vibrant changes in China’s state sector, it is necessary to scrutinise what kinds of goals the state-owned organisations are pursuing. Is there a common competitive goal that management and labour are jointly pursuing? Are there certain forms of formal or informal voices representation shaping and are collisions accepted? Or if management prerogative turns out to dominate the IR system without addressing any issues regarding’s labour voice, then how is such a form of unitarism possible? As Fox¹⁸ (1974, cited by Hill and Thurley, 1974, p.149) argued,

“sociology as a discipline confers its greatest strength when it helps us, at least to some limited degree, to reduce our dependence on the

¹⁸ Quoted by Hill, S. and Thurley, K., 1974. Sociology and industrial relations. *British Journal of Industrial Relations*, 12(2), p.149.

blinkers of our own social reconditioning and thereby to escape from the self-fulfilling prophecies of what is, must be."

With this principle, firm-level managing practices and the party-state's policies should be reviewed "out of the box" by probing wider so as to shed more light on the complex nature of CCP-led corporate governance. Also, the case analysis should focus on the meanings of those managerial behaviours in the particular market and institutional settings. In light of these concerns, I contend that the analytical framework needs to include the following propositions. Based on the a priori constructs in the existing literature, these propositions that help to anchor the issues of interest in the empirical inquiry, are to be tested and the outcomes will then be discussed.

Proposition 1: Firm-level CCP organs or managing personnel with a party background, avidly adjust their labour managing strategies in responding to the emerging market and technological environment. Hence, this necessitates including market and technological factors in the framework

Proposition 2: The underlying relationship regarding the roles at firm-level is far more complex than in a conventional corporate bureaucratic system or traditional communist organisational hierarchy. That is, the CCP exerts its political influence on managers and union leaders through multiple means.

Proposition 3: The firms' staffing strategies are determined outside the boundaries of individual firms. At the same time, corporate governance arrangements have substantial influences on the CCP's political agenda for labour management.

4.2 Analytical framework (strategic choice and why)

To bring these propositions into the analysis, Kochan and colleagues' strategy choice approach (see Kochan, McKersie and Cappelli, 1984) is deemed an appropriate framework for helping to conceptualise the complex dynamics of CCP-driven labour management. Unlike other writings from the orthodox school of industrial relations, Kochan's approach treats industrial relations as a field comprising a variety of social and institutional components beyond corporate domains. Also, unlike many writings that adopt a comparative approach, this framework is not limited merely to exploring how management in different institutional settings reacts to the overall environmental changes. Instead, Kochan sees the strategic choices made by organisations (either competitive strategies or

other practices responding to industrial relation policies) as “systems of interlocking and mutually reinforcing elements” (Locke, Kochan and Piore, 1995, p. xxiii). Consequently, it is important to unpack how decision makers (managers, or other kinds of roles embedded in various political and social settings) shape their “choices” and also to shed light on the linkages between these competitive production practices in different industries or segments. In addition, the strategic choice framework considers the impact of corporate governing arrangements on overall employment policies and practices. Under this lens, it is conceived that no managerial decision is made outside of the political and institutional settings. For example, in many countries where competitive behaviours are constrained by centralised institutions and strong pro-labour state policies, competitive decisions are bound to be made with more concerns regarding labour-management cooperation and commitment, which will inevitably influence decisions and practices made at the state level. Such a perspective provides the opportunity to obtain an in-depth view on how managerial arrangements reflect the state’s ideology with regards to the industrial relations setting. It also allows for the examination of managing practices and policies as components of a grand institutional system of labour management, rather than considering them in isolation.

4.2.1 The framework of strategic choice

Kochan exemplifies three level of analysis that a study on an IR system with strategic choice approach needs to develop (See **Error! Reference source not found.**). The first tier is the study of “explanatory forces”, which entails scrutinising institutional factors, such as particular types of national and industrial governing institutions, regarding their structures and operating mechanisms. Based on this contextual information, the researcher should examine what kinds of strategies firms (or other types of economic entities) deploy. The author gave two contrasting examples based on American experience: 1) a cost-driven mass production strategy based on low-skilled, low-paid workers and adversarial labour-management relations; or 2) long-term strategies driven by innovation and product quality, aiming to form a high-skilled, well-paid workforce that is oriented

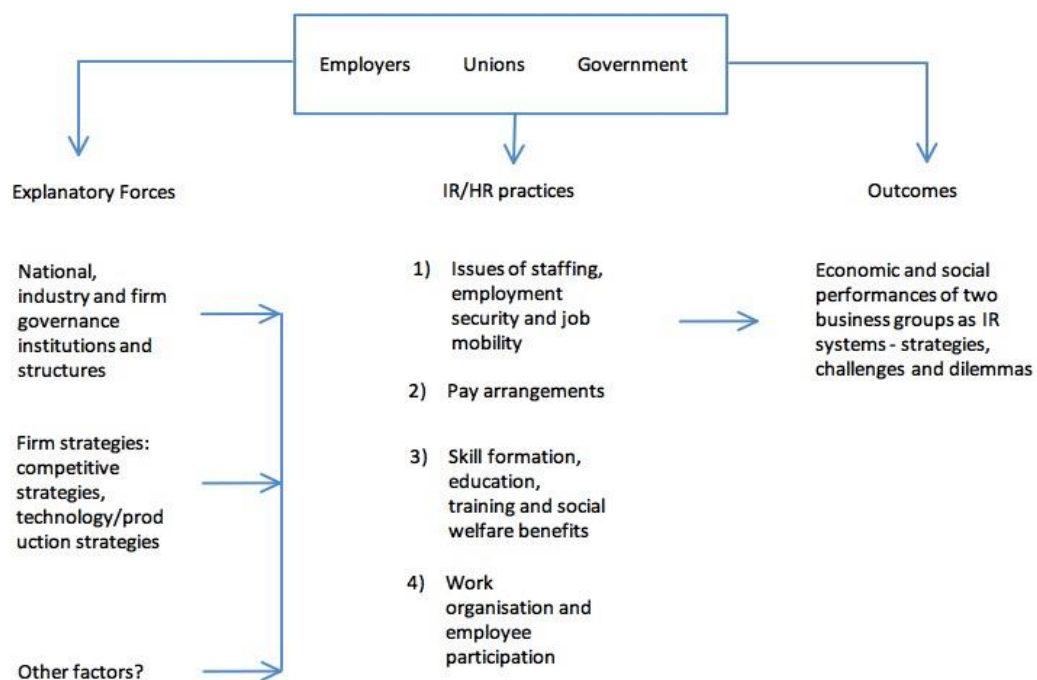
towards cooperation rather than confrontation with management. Firm strategies can be even more diverse depending on the degrees of centralisation and institutionalisation of collective bargaining, and researchers are supposed to reveal rich detail through the forming of strategies employing a longitudinal approach. In general, the primary analytical foci regarding this “explanatory force” are a) competitiveness or mass production oriented strategies and b) adversarial or cooperative labour-management relations.

The next tier of inquiry focuses on the particular industrial relations or human resource practices deployed in firms, which include: 1) issues of staffing, employment security and job mobility; 2) pay arrangements; 3) skill formations, training and social welfare benefits; and 4) work organisation and employee participation. It should be noted, Kochan (1995, p. xxvi) admitted that these four types may not comprehensively cover all kinds of employment practices, but rather, it is anticipated that they will serve as a window on employment relations in most countries. Moreover, the enquiry should be aimed at revealing the relations between actors and the shaping of these practices at various levels. This approach also serves to provide a window on diversity within and across different firms, industries, regions and countries.

Finally, the economic and social performance of these practices are the last tier to address in a strategic choice study. These outcomes should not only be viewed as consequences of particular firms in terms of business performance and employment strategies, for they also need to be considered in terms of reflection or potential sources of change in the industrial relations setting at the societal level. In this regard, the chosen framework is sufficiently flexible to uncover the linkage between firm practices and outer-firm institutions, thereby shedding light on the nature of party-driven labour management. Moreover, case study research within state-owned organisations as found in China, should be designed to probe beyond the conventional role setting of industrial relations (state, manager and labour force). Despite there seemingly being a well-organised framework of employment relationships at the state level in China’s context (tripartite system), all the players are party-attached agents who represent various kinds of Party

interests. Hence, to understand what kind of party-controlled mechanisms make it possible to balance diverse interests within SOBGs, it is necessary to scrutinise the strategic choices made by CCP organs at the firm-level. Only a good understanding on what the party thinks and how its decisions are executed, can lead to the acquisition of meaningful explanations regarding particular labour managing matters.

Figure 4-1 Illustration of strategic choice framework



(Note: excerpted from Bamber, G.J. and Lansbury, R.D. eds., 1993, p. 23. *International Comparative Industrial Relations: A Study of Industrialised Market Economies*. Allen and Unwin., adapted with small changes)

4.2.2 Propositional inquiring plan and case study template (before the pilot study)

In the original plan of inquiry, an extended case study procedure entailing 3 or 4 cases was proposed. Each case was supposed to uncover contingent labour managing strategies that SOBG managers (or cadres with managing or administrative jobs) made in response to different market settings and ownership structures. The investigation was to start by gathering background documentary

data at local the SASAC (State-owned Assets Supervision and Administration Commission of the State Council, or *Guoziwei*), the governing body of Shanghai's local state-owned enterprises. That is, in order to target the initial case of this extended case study, a wide range of information regarding the corporations' corporate structure, market strategies and performance would be needed during the time of research, which was located with the SASAC. After this stage, the case selecting and case study inquiries would proceed based on the findings and questions generated from the previous ones, until the extending process reached a "saturated status", when no questions of interest are unanswered, in this case, in relation to building a typology of labour management.

The proposed objective of typology building was based on the existing theories in relation to the diverging "regimes of production" in post-reform China. With a perspective of western-based labour sociology, Chinese workplaces have now become contested terrains between labour and management, exhibiting various forms (Lüthje, Luo and Zhang, 2013). Some profound differences in the regime of production across regions and ownership types have already been discussed, such as the divergence between the country's northern state-owned heavy industrial areas and the export-oriented, heavily private and foreign dominated south (see Lee, 2007). Lüthje and colleagues (2013) further looked into such divergence by including more within-organisational factors, such as models of production, management systems and ways of performance control. Through in-depth empirical inquiry within enterprises, he developed a complex typology and pointed out that uniformities beyond the conventional boundaries of regions and industrial sectors exist, such as a weak labour voice in a tripartite system and disseminated human resource practices.

It is necessary to broaden this type of analysis to scrutinise other factors and to examine the potential divergence within regions and institutions. In addition, longitudinal data related to the shaping of policies and practices should be valued, since it is crucial not only to draw descriptive conclusions as to what kinds of divergence there are, but also what they mean. In light of these concerns, the

original case study I proposed included three aspects of policies and practices adopted within organisations:

- a) **Party's control over management:** this aspect of the inquiry was supposed to look at firm-level party organs' behaviour for influencing particular managing matters. What were their responses to "Grasping Big and Letting Small Go" and what kind of new roles are party officials and apparatuses are playing in the aftermath of the "iron rice bowl" breaking?
- b) **Staffing strategy:** what kinds of staffing strategy the state-owned corporations have adopted – recruiting large numbers of low-skilled, temporary workers or a long-term strategy focusing on cooperation and commitment.
- c) **Types of workforces:** whether the workers in those state-owned corporations are associated under certain voice representing institutions, such as a firm-level ACFTU or other forms of formal or informal alternatives. The inquiry was also designed to investigate whether workers are willing to devote themselves to a long-term career in their current workplaces or prefer short stay temporary jobs.

In sum, for the original plan the aim was to explore China's segmentation of divers labour managing regimes by investigating the dynamic within Shanghai's local state sector. It was hoped that a new typological theory would be generated through this procedure of extended case study research and moreover, provide understanding with regards to what such divergence within the local state sector means for the country's industrial relations system shaping.

4.3 Fieldwork: from the pilot to research visits

Starting in September, 2013, the fieldwork initially took place for piloting purposes at SASAC, the semi-governing body of all state-owned assets and corporations in Shanghai region. Following the pilot research, I revised my research plan and spent two months visiting two selected state-owned business groups (SOBGs) to conduct case studies. A combination of research techniques were used to illustrate the pictures of the labour managing regimes of the two selected cases. In July 2015, I spent one more month on a return visit to SASAC and the two groups. Throughout this fieldwork experience, there have been 235

official documents collected; 23 interviews conducted with various types of cadre leaders and managers in two SOBGs; and also two participatory observing inquiries conducted in the group's HRM-related departments.

4.3.1 Pilot study

There were two objectives of the pilot study. Firstly, it was hoped that the experience of visiting SASAC would provide sufficient contextual knowledge to help me formulate the case study template. Based on the broad aspects I proposed above, the detailed criteria for investigation were listed prior to visiting SASAC. Also, the plan was to test whether these three general aspects of practices could accurately reflect the reality of SOBGs' strategic choices. Secondly, the aim was to refine the extended case selecting plan from the pilot study outcomes. The initial idea was to select a purportedly "successful" example of corporation, which was supposed to be operating in highly market-oriented ways under Party control. Then, the subsequent cases would be selected in accordance to the questions generated from the examining process of the first case study. In general, the pilot research taking place at SASAC and the first corporation was geared towards defining subsequent process of further case study research. In particular, it was hoped that the diverse dynamic of the labour managing system found in further cases would present itself in the same format as for the first case.

However, the documenting work that took place in SASAC revealed a more complex picture of those SOBGs, way beyond my expectation. In terms of the groups' way of organising, apart from the Party governing apparatuses being widely deployed among the groups' member organisations as expected, they have various degrees of managerial power determined by what kinds of ownership relationship they have with group headquarters. Given such complexity in the corporate structure, extensive differentiation emerged within the groups regarding various labour managing aspects: workforce formation, staffing strategies and labour-management relations. At the same time, the groups are strongly integrated entities in the sense of the Party's rhetoric of strengthening local state-owned industries with market means. Such complexities meant that it

was difficult to determine whether those groups are a highly organised managing hierarchy or a loosely linked network within which local state-owned enterprises are governed by the CCP through less formal approaches. It also became apparent that understanding the Party apparatuses' roles in relation to labour managing matters was going to be challenge. A further problem emerge regarding the justification of the selection of the unit of analysis in the original plan. That is, without a clear understanding of the institutions beyond the boundaries of these enterprises, the differentiated pattern sin terms of ways managing could not be comprehended.

4.3.2 Refined research plan and case study template

To demonstrate the shaping of SOBGs' strategic choices on labour management, the refined plan of case study research is aimed at reflecting three key aspects of issues of these transforming process: 1) the groups' practices when redeploying or resettling inefficient old workforces; 2) the groups' CCP-led labour relations reshaping; and 3) market-oriented labour managing practices driven by party governance (see Figure 4-2). Based on consideration of these aspects, the case study template entails 12 detailed criteria (see Figure 4-3) for investigation - the in-depth case studies are designed to reveal what kinds of approaches the firm-level CCPs adopted to tackle these issues. The templates for each case are designed to be filled with the particular controlling methods that the CCP engages with.

Figure 4-2 Illustration of refined framework of strategic choice

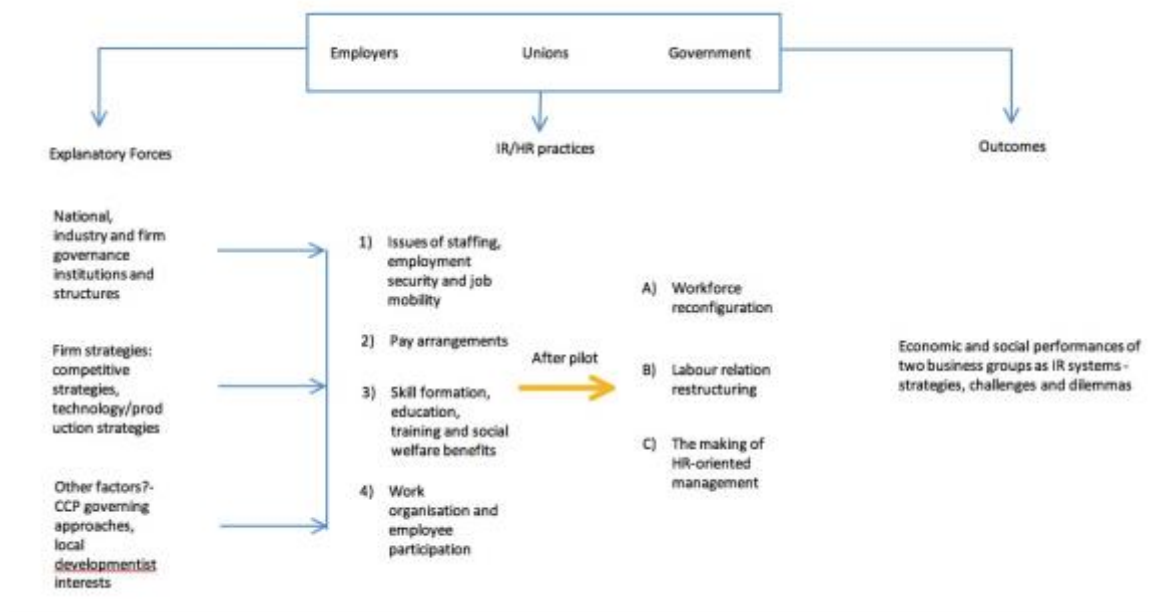


Figure 4-3 Case study template

	<i>Managing levels</i>				
	<i>Items</i>	Senior cadres	Middle managing/technical personnel	Labour market workers	Agency workers
Workforce restructuring	Redeployment/laying-off				
	Dispute/stability control				
	Reconfiguration of skilled "talents"				
Labour relations	Rights protection/voice representation				
	Contractual procedures				
	Contractual contents				
	Wage, working hours				
Market-oriented management	Performance control				
	Bonus payment				
	Skill training				
	Promotion/internal mobility				
	Selection				

Legal regulation/guideline governance	
Informal negotiation/bargaining	
Cadre consultation/collective representation	
Controls with HR elements	
Trade union control	
None	

Note: The cells in the template will be filled in with these coloured tiles in order to demonstrate different types of control applied to various LM aspects.

In the original plan, the party's influence over labour managing matters was only conceptualised as a spectrum ranging from weak to strong. However, the post-pilot plan was altered so as to investigate the nature of the Party's governance of the local state sector and the conceptualisation of the controlling methods needed to be refined so as to encompass the complexity. Based on my SASAC visiting experience as well as the SOBGs' reports for political purposes, I have proposed five conceptualised forms of control adopted by the group CCPs in the template (shown as coloured tiles in Figure 4-3):

a) Directly controlled with legal regulations or party guidelines - This type of control is typically the "hard" control that is directly operated by party apparatuses. Policies and guidelines are often issued from the central level of the CCP and cascaded downwards by the same types of party organs at various levels. Described as "mini-centrality" (*xiao zhongyang*) by SASAC officials¹⁹, the way that party apparatuses are equipped at SOBGs mirrors many other party-related organisations with administrative or public service functions. Thus, these groups are no exception to the CCP's top-down approach of governance - the party apparatuses at group level receive directives according to their professional functions (or "*tiao-xian*", meaning "line-up" in party-state's terminology) and they are supposed to carry them out in the SOBGs with an administrative approach. Regarding these SOBGs' labour issues, this type of "hard" control is mainly applied to the issues of reshaping employment relations, including the controlling process and contents of bargaining.

b) Informal negotiation and bargaining - This type of control does not involve any written rules or regulation. These approaches are often adopted during disputed relations between employers and "resettled" workers. Managers and personnel managing cadres are often guided to use coercive or persuasive

¹⁹ In a pilot interview with Ms. S, the senior researcher of Shanghai SASAC research division, the term "xiaozhongyang" was specifically used when the topic was moved on SASAC's difficulty in controlling some of groups – *"Groups have their own Party committees and ACFTU apparatuses – just like a well-functioned 'mini-centrality' (xiaozhongyao), so of course they are entitled to prioritise their own interests (in strategy making)."* This implies group-based CCP's potential intention to resist political guidance from the superior party apparatuses.

approaches to settle any possible form of open labour-management collision. During the early period of SOE reform, it was a political task to “resettle appropriately”²⁰ inefficient workforces for managers and party cadres in the wake of ownership transition. As an experienced grass-roots cadre who was in charge of the “resettling” (or “*fenliu*”)²¹ task in late 1990s recalled, the fundamental objective was to “remove the labour burden”²² for enterprises, whilst at the same time ensuring “workers were not hurt economically and emotionally”²³. The process involved a huge amount of work of informally negotiating with workers as well as the redeploying agencies, for the sake of avoiding a large-scale outburst of labour grievance. Today, the top-level party apparatuses have retreated from dealing with labour issues leftover from the groups’ past of enforced downsizing, but there are still organised institutions existing within SOBGs that are tasked with resolving “resettled” workers’ complaints and occasional organised petitions by using similar old methods.

c) CCP’s internal consultation and consultation - Some labour managing changes in core workforces and cadres are determined by the leading cadres’ closed-door consultation. Dictated by the group CCPs’ political concerns regarding personnel formulation, this type of control is often operated through the Party’s governing platforms, such as the Party academies, cadres’ meetings and communicating sessions. In most cases, this kind of decision making only takes the form of a consulting role on labour managing matters, but they often provide a supplemental opinion on managerial matters in the member enterprises. However,

²⁰ Addressed in the SASAC bulletin (28-04-2013) calling for strengthened party’s role in maintaining harmonious relationship between labour and management (“加强和改进国企党建，提高科学化水平”).

²¹ The measure was also interpreted as “position transferring” (see Won, 2004, p. 74), through which workers are removed from posts with an agreed deal of severance package that based on the duration of labour tenure.

²² Excerpted from Shanghai SASAC’s 2007 reviewing report on Shanghai’s SOE reforms (“专题报告：2007 年国资国企改革回顾”，p83), in which “getting rid of historical burden of labour” was addressed as a premise of strengthening SOBGs’ competitiveness in the emerging markets.

²³ Excerpted from the Shanghai local CCP committee’s 2009 directive paper regarding the issue of collective petitioning in state-owned sector (“搭建集中管理平台，促进信访工作‘五个转变’”)

there is still a wide range of businesses requiring “scrutinised by leading cadres’ collective wisdom” (*jiti-baguan*)²⁴. Especially on the groups’ workforce selecting issues, whereby the selection procedures have to be examined under the Party’s standard of “dual virtues” (being adept in both professional skills and political awareness).

d) HR-driven means of management - HR-oriented concepts and practices are widely adopted among SOBGs. To build up organised bureaucratic control over workers’ efficiency and capabilities, professional HRM departments are established at various levels. However, the visiting experience at SASAC has confirmed my assumption about the SOEs’ HRM that instead of a uniform trend towards market-oriented means of management, the administration in the groups under SASAC had undermined various contingent conditions that motivated leading cadres to promote HRM ideas. As party-promoted projects, the managers working in HR-related posts can be either inside or outside party-state governance. At SASAC, it was also found that the forming of HR-oriented managing structures also varies across workplaces - some of them can be dated back to the 1980s when there were attempts to form joint ventures with foreign partners and HRM techniques were introduced as advanced managing ideas. For some of the others, it was more a nudging effect of being encouraged by counterparts in the state sector than a spontaneous move to make changes to labour managing ways. Without sufficient scrutiny of the inside organising process of SOBGs’ HRM in the state sector as yet, one can only speculate whether the party-led labour management was generally amenable to becoming HR-oriented. In the following case studies, “HRM” will be only observed as various managing practices with “HRM elements”, since it would be a fundamental error to assume the outcomes of Party politics would assume a similar model to that of western HRM.

e) ACFTU dominant control – From the pilot study, it was found that ACFTU organisations are still active players in SOBGs’ labour managing transitions. Whilst there is no evidence suggesting that the party-controlled union organisations play

²⁴ Excerpted from the directive paper (No. 48) addressing the founding of Shanghai SASAC in 2003

any kind of independent voice in representing the workforce, its importance is still worth noting given the organisations' reported involvement on a wide range of issues, such as building up the party-state's collective consulting system at the firm-levels and having a say in agency workers' rights. Another notable sign of ACFTU's possible non-negative role in the groups' formation of labour managing strategies is its frequent presence in various scenarios of negotiations. According to the groups' reports sent to SASAC, ACFTU organisations are often consulted on managerial issues, such as workers' participation and technical talent selection. Hence, it is appropriate to consider whether ACFTU possesses any substantial form of power in the controlling groups' labour managing strategies.

From the pilot study it also emerged that labour managing changes for different types of workers are separately reported to SASAC. For instance, the extensively used term "HRM" is often solely applied in the reports regarding the groups' high-skilled workforces. In the reports that contain general information about the groups, managing practices related to the workers who work in high-end business sectors are often reported in a manner that could be construed as showcasing advanced HRM techniques, while the reports regarding other types of workers tend to be centred on ACFTU's repetitive political rhetoric of strengthening the CCP's bond with the labour force. In light of these phenomena, it is worth speculating that the group CCPs differentiate their labour managing strategies across the various types of workforces. Here in this template, I have proposed a stratified overview of the SOBGs' workforces as shown in the columns of the template table, for which the group CCP adopts varying controlling strategies on an extensive range of issues. 1) For the senior cadres, this category of workers includes all kinds of senior party leaders who are in secured posts of administration or management. 2) Regarding the middle-range managing and technical personnel, these are the emerging managing and technical elites that SOBGs are now heavily relying on with the expectation of expanding into high-end markets. It is unclear to what extent these long-term workforces are attached to the groups' party governing system and thus, it is planned in the case study research to explore the terms used by the SOBGs' managing rhetoric, such as "high-tech talents" and "pioneering talents". 3) For labour market workers, this category

is considered as the ordinary workforces that SOBGs recruit from the labour market. They can be either given short-term or long-term jobs depending on how the groups value particular skills or other non-performance related traits. 4) Regarding agency workers- being politically discouraged since the new labour legislation, it is reported that the overall number of agency workers in Shanghai's local state sector has dropped drastically. For the few that remain in their jobs, it will be interesting to find out what kind of methods the group CCPs adopt to make them fit in with the groups' business strategies.

4.3.3 "Casing" process and research visits

"Casing" and case selection

Instead of the original plan that the study would contain 3 or 4 cases for developing a typological theory, the fieldwork ultimately ended up covering two cases. The first case was still the same one chosen for the pilot study, ElectriCo, a state-owned business group producing and selling mechanical and electric equipment. The forming of the ElectriCo group was the outcome from CCP planning and top-down control over management. After over twenty years of transformation, it has now become a highly market-oriented business group that aims to break into the international market of power generating equipment. The next chapter will demonstrate the ways that ElectriCo's party apparatuses plan and deploy an HR-oriented labour managing system all over the group hierarchy. It is a case suggesting that the CCP has taken an incremental path of transition that has led to the local state-owned industry becoming organised into a corporate-based framework, in which the party apparatuses play an active role in introducing and deploying HR-based practices. In addition, it was found in this case that the Party overall takes a pro-managerialist stance on various issues of labour management.

The next step of “casing”²⁵ is based on the reflexive thinking engaged with for the first case. I raised two questions at the end of my first case study inquiry. As demonstrated in the case study chapter, HR-oriented labour managing practices are prevalent across the group hierarchy, except regarding a handful of issues relating to the groups’ cadre personnel arrangements. However, the Party has been the driving force in such a shift in the orientation of labour management. Thus, the first concern was whether there was a case suggesting that the group-based CCP only permits HR-oriented approaches being deployed in a limited way and most of labour managing issues are still informally determined by the CCP’s political logic. If such a case existed, then the interest would lie in what kind of transitioning path it had undergone that had resulted in such a form of labour managing regime. Since ElectriCo’s CCP has spontaneously chosen a market-oriented strategy to ensure that the group is efficient in the new market and technological environment, how could this potential case be able to survive through the years of economic reforms?

Based on these reflexive questions, the next stage of the “casing” procedure was focused on targeting the second case in accordance with the following criteria:

a) This case shall be a corporation that has undergone a twisting path of transition. In contrast to ElectriCo’s “incremental model”, it must provide an alternative narrative of transitioning history. It would be interesting to find a case where pro-business strategies are passively “infused”, rather than a spontaneous process of “opting to” deploy what? so as to replace the old party-driven personnel management.

b) HR-oriented practices of labour management should be somewhat constrained in this case. The goals of deploying these practices are complicated through their being conflated with political concerns.

²⁵ For Ragin (1992, p. 217), “casing” refers to a research tactic conducted in sequent manner, which enables researchers to “sift through empirical evidence to define cases and thus bring a measure of closure to vaguely formulated theoretical concepts or ideas”.

c) Compared to ElectriCo's overall pro-business labour relations setting, this case needs to provide a more complex picture of dynamics between the different parties. The CCP's flexible approaches of creating peace in the re-shaping of labour relations are expected to be revealed through this case.

By consulting with SASAC officials, TexCo gained my attraction as a plausible candidate for the second case study. The group inherited the assets and key managing personnel of the original Shang Textile Bureau; the administrative body of Shanghai's local state-owned textile industry in the pre-reform era. The corporation has some undergone radical changes in its labour management in history - in early 1990s, it has suffered a huge amount of labour force loss due to the state's enforced downsizing policy. Shrinking from a local state industry that used to be staffed with over 500,000 state workers to the nowadays business group with only 20,000 contracted employees, this group is purportedly "a reset project of starting up Shanghai's textile industry" by removing the old Bureau's "historical burden" of unresolved cases of labour dispute²⁶. It would be interesting to see how TexCo CCP's attempts to, on the one hand, break into the emerging textile product market through market-oriented labour managing approaches, whilst on the other, negotiating with its past of "iron rice bowls".

Multiple use of qualitative research methods

Stage 1. Documentation

Background information, such as workforce structure, business circumstances and business strategies, were mainly gathered through searching the archive at the groups' headquarters. These documents included strategy bulletins, regulation handbooks and training handouts. There are a few aspects of information to be noted in the further gathering:

- The business groups' main businesses and its strategic orientation regarding market expansion;

²⁶ Quoted from an interview with Ms. S, a SASAC official who worked in the administrative body's research unit.

- Transforming history of the workforce structure;
- How have these groups been altering labour managing schemes in response to the new market environment?

235 official documents in total were collected from research visits, including 96 from SASAC and 139 from the two visited groups. Due to these groups' less organised manner of collecting and reporting statistics, different types of documents often reveal inconsistent narratives of these groups' background information. Consequently, I also maintained contact with the groups after the formal research visits for the supplying of further documents and facts checks. Information inconsistency was widely found among groups' official reports. Imbued with the Party-state's official terminology, statistics are often either deliberately or carelessly wrongly reported. A good example of this can be found in both groups' labour managing themed reports from 2011 to 2015, where the total number of workers in their key business sectors are interchangeably used as the groups' overall population statistics. To tackle such difficulties, the later data analysis involved much work on tracing back the real meaning of these confusing documents. As a result, the background information that is ultimately reported in both case studies is the outcome of an enduring process of verifying such contradictory reports throughout the study visiting period as well as during the subsequent data analysis.

Stage 2. Interviews

A selection of leading cadres, HR managers and union officials were interviewed with a semi-structured format. The interviews were started by asking about their range of responsibilities, then moved on to questions regarding the groups' strategic decisions on labour management. As the template addresses, questions about strategic choices comprise three main aspects: 1) labour force re-configuration; 2) labour relations reshaping; and 3) internal mobility and selection. Given many of them had had prolong experience working in the industries and related party organs, the interviews were aimed at exploring their opinions on the historical changes in labour management. These interviews also shed light on how diverse the views of different professionals inside the CCP are.

Moreover, the interviews covered the issue of how the party organs reached a compromise when they found themselves with opposing stances on the groups' strategy. A detailed list of interviewees can be found in [Appendix 4](#).

Stage 3. Participatory observation

The participatory observations took place at the HRM units of both groups. The aim of using this method was to profile a HR-based project in each case, which was in its deployment process when I became involved. In doing so, it was hoped an in-depth view would be executed on how the different parties were reacting and responding to the proposed new practices. In both case study visits²⁷, I requested participation in one of the projects led by these groups' HRM units. My identity as a participant was classified as an "external specialist", with which I was allowed to get access to all kinds of materials (slides for training use, planning schedule, interview scripts, etc.), as well as various forms of meetings and discussing sessions (group meetings, focus groups with workers and cadres and the party academy gathering for tracking the progress of the implementation of those projects). I was occasionally asked about my opinions, but little heed was taken regarding my responses.

At ElectriCo, the first case study, I was involved in a highly organised project. The group's HRM department was carrying out research about the feasibility of deploying a "competency model", an HRM-based evaluating system, at all levels of the group. It was part of the department's given task of exploring new managing practices for supporting the group's new strategy of developing emerging "smart" industries. The basic idea of this "competency model" was to design a method of measuring the workers' merit and to give an evaluation on the most suitable types of job that workers are competent with. The part of the research work I spent most of my time participating in and observing, was seeking a solution to evaluating the group' leading cadres. It was a key stage in the whole project - in the HRM department's plan, data collected from those cadres would be used as a reference

²⁷ The research visits to each case contain four short visits targeting for semi-structured interviews, and one long visit for participatory-observations lasting for three weeks.

to develop an index that would ultimately be applied to all workforces in the group. By referencing the traits of the group's existing cadre leaders, the department hoped that they could rely on quantified means to select potential candidates for the future cadre leaders from the mass workers.

In TexCo, on the other hand, there was no very organised manner of developing HRM-oriented solutions. Even though there were similar projects listed in the group's agenda, there had never been substantial moves towards implementing them. After I explained my intentions and research aims, I was also given access to the group's "ongoing" project of a "competency model" despite the fact that it was nothing but a shell project. However, the unsuccessful plan of replicating my observing experience in ElectriCo surprisingly granted me chances to get access to the HRM units in the groups' core businesses. These extra workplace visits shed some new light on how HRM-oriented practices are facilitated and overseen by the party apparatuses. The reality that TexCo's HRM-oriented practices are only treated as piloting projects with limited deployment in the group's strategic business sectors, was revealed from my research visits and interviews at these units (see detailed coverage in the Discussion Chapter).

Chapter 5 Case study: “ElectriCo”

5.1 History of the transformation

The history of the electromechanical s manufacturing industry can be dated back to the late 19th century, just after the imperial dynasty of Qing was forced to open its gates and allow western trading business. Increasing needs of modern infrastructure drove manual workshops in China’s coastal regions to being transformed into industrialised factories. However, without sufficient properly educated engineers and technicians, those early pioneers of China’s modern industry could hardly develop into being strong. Consequently, many suppliers were purchased by western companies, mainly providing repairing and maintaining services for foreign-made industrial products.

In the wake of the Qing empire’s “self-strengthening movement” or “westernising movement”, which sought to learn and introduce advanced western science and technology in order to forge self-reliant industries, thus enabling the empire’s military power to be strengthened against the western powers, the first wave of state-run machinery manufacturing factories appeared. Owned by indigenous aristocrats, while managed by western experts, those factories and companies were imperial China’s windows on the world, from which it hoped to absorb and learn advanced industrial knowledge as quickly as possible so as to wash away the prior shame of successive military failures. Initiated from deploying large scale production of machine tools, by the end of 19th century, the state-driven attempts at “self-strengthening” had led to a comparably small-scale, but complete self-reliant supply chain, in Shanghai, serving various types of production, ranging from spare and accessory parts to shipbuilding.

Following this, with ongoing political volatility, the industry struggled to survive from war as well as the challenges from foreign counterparts. When the imperial rule collapsed and the newly found nationalist republic failed to govern stably, state support to industrial development was lacking during the first three decades of 20th century. However, since 1910s, it was witnessed that private-invested

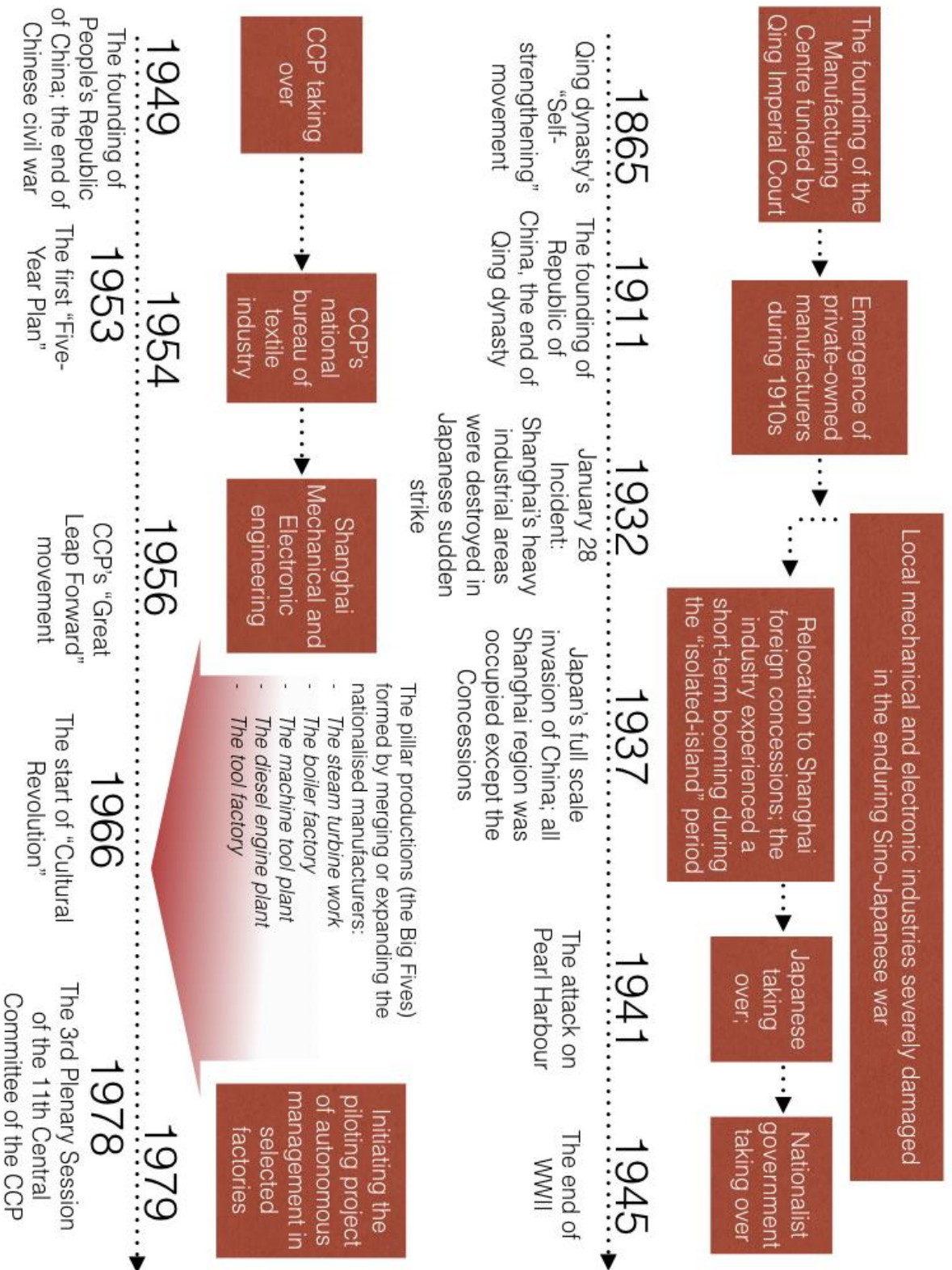
manufacturing business flourished in Shanghai with surging demand for domestic products, which was to a large extent due to the major western powers' distraction from activities in the far east owing to World War I. Also, this rise of "nationalist industries" (minzu gongye) was later enormously supported by the widespread political agenda of nationalism and anti-imperialism, which advocated the public to stop buying products imported from hostile powers, especially the Japanese Empire. Leading figures of "the nationalist industry" were mainly senior workers or specialists, who had obtained work experience in the workplaces established under the banner of previous Qing's "self-strengthening movement", which guaranteed that the technological legacy of the prior state-driven industrial plan was preserved and further developed in nationalist China's enlarging private sector.

After the CCP took power in 1949, the new Shanghai authorities embarked on taking charge of the "socialist transformation" of the nation's industrial powerhouse. By the late 1950s, with the political movement of "joint private-state cooperation", major industrial producers in the city were coercively transformed into being mixed-owned corporations, having to follow the guidelines issued from the newly formed planning Bureaus. Gradually taking control of production, the CCP reintegrated the pre-revolutionary "nationalist capitals" into several planned sectors of production, so as to forge a planned economy based upon Shanghai's existing industrial infrastructure. This series of industrial restructuring, driven by the communist political process, generated nationalised factories producing steam turbines, power generators and boilers, which were backbone of the future state-owned corporation of ElectriCo.

Entering the age of planned industry, ElectriCo's predecessors gained prestige by being chosen as the central government's focus for strengthening industry. Like many counterparts in the early history of the PRC, workplaces in the Shanghai Electromechanical Bureau updated its production lines and technology by relying on industrial support from the Soviet Union and other its Eastern European satellite states. Soon, those state-restructured plants and enterprises were able to produce basic electromechanical devices by copying the Stalinist model of

production and management style. Being the showcase in terms of demonstrating the communist state's strong ability to develop industry, the Shanghai Electromechanical Bureau was fully supported by the central government with high quality personnel and resources. At the same time, it was required by the party to deliver remarkable industrial achievements, thus showing the newly formed state's industrial muscle. Other than creating the socialist ideology of building strong industry to strengthen social wellbeing, the CCP's restructuring plan in Shanghai was expected to become the entire nation's model of developing socialist industry, which would demonstrate the superiority of this historical modernising pilot in the form of a showcase to rest of the world. Also, for the same reason, Shanghai's state-led electromechanical industry was regarded by the CCP as the milestone for forging a self-reliant industry. When the Soviet Union withdrew its experts and joint projects with China owing to the two countries' deteriorating relations in the 1960s, several industrial achievements made by the Shanghai electromechanical Bureau were highlighted as source of national pride as they showed that China had the ability to develop industries without any foreign aid.

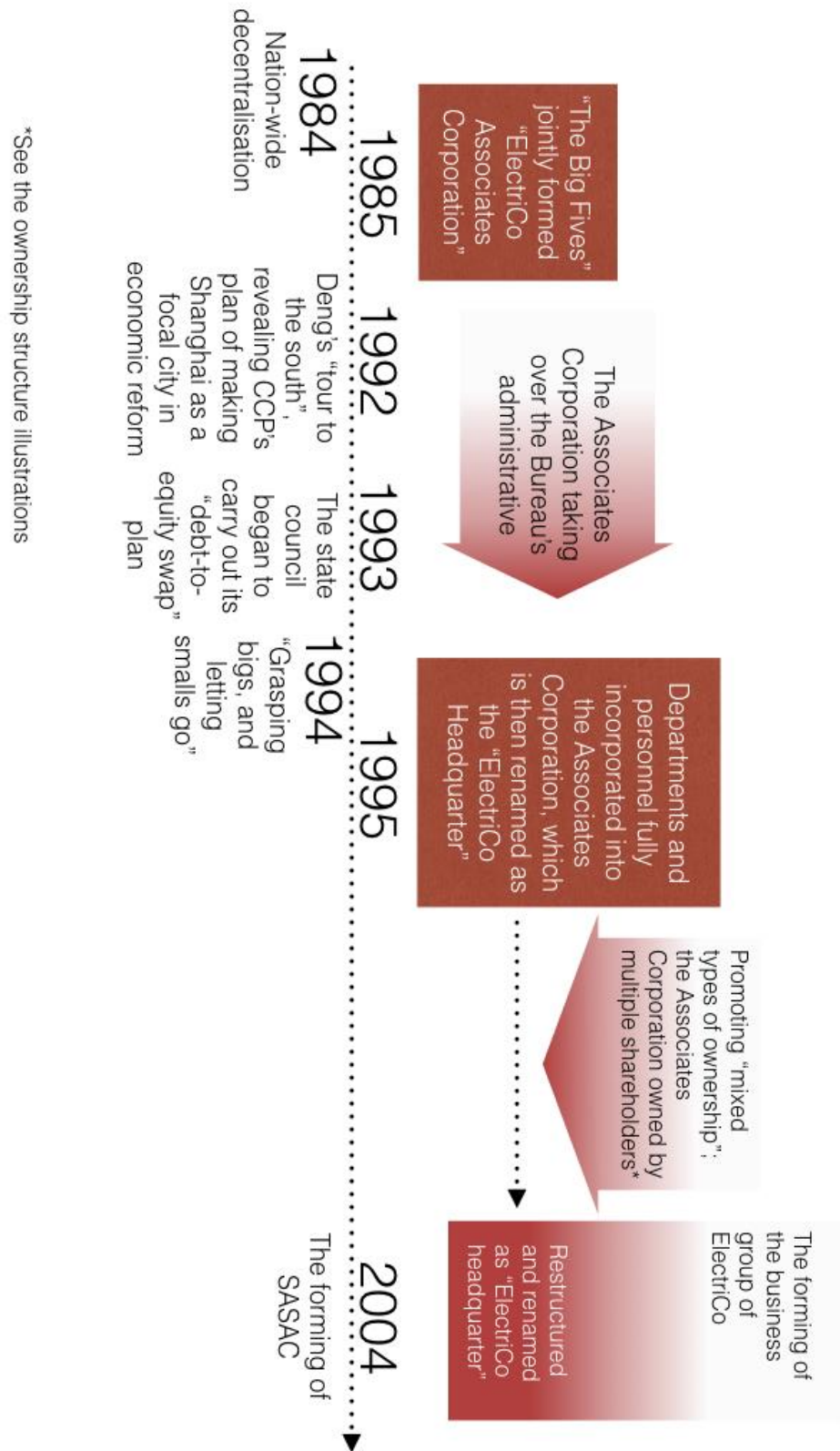
Figure 5-1 The “talent” selecting and promoting scheme



In 1985, the “big five” enterprises of the industry, including the machine tool plant, the boiler factory, the steam turbine factory, the diesel engine plant and the tool factory were merged as a limited liability company, the ElectriCo associates company. The new company also included one local administrative body of power inspection as well as two research facilities owned by the local government. Over the next ten years, the managerial personnel in the Associates Corporation gradually took power in the Bureau. This corporatising process ultimately resulted in the dismantling of the Bureau in 1995 – political and administrative organs in the former Bureau were incorporated into the Associates Corporation. Since then, the top level of ElectriCo hierarchy no longer dominates the day-to-day management matters in the member enterprises, such as marketing, procurement, and pricing, for such powers were decentralised to the enterprises’ managers. However, the CCP apparatus at headquarters still holds the power of appointment and removal of cadre personnel in the subordinates.

In the wake of the forming of SASAC in 2004, the Associates Corporation integrated its profitable assets into one new holding company, including 13 of its major enterprises, which was listed on the Hong Kong stock market. The Associates Corporation was also renamed as the “ElectriCo headquarters” in this restructuring process. Under the “mixed ownership” model of state industry, ElectriCo’s CCP hoped to distance themselves further from the enterprise operations, whilst at the same time strengthening their control over the capital operations and strategic orientation of the businesses. To operationalise this distancing, the “ElectriCo” group was formed in the same year.

Figure 5-2 Transforming history of ElectriCo (1985-2004)



5.2 Corporate structure

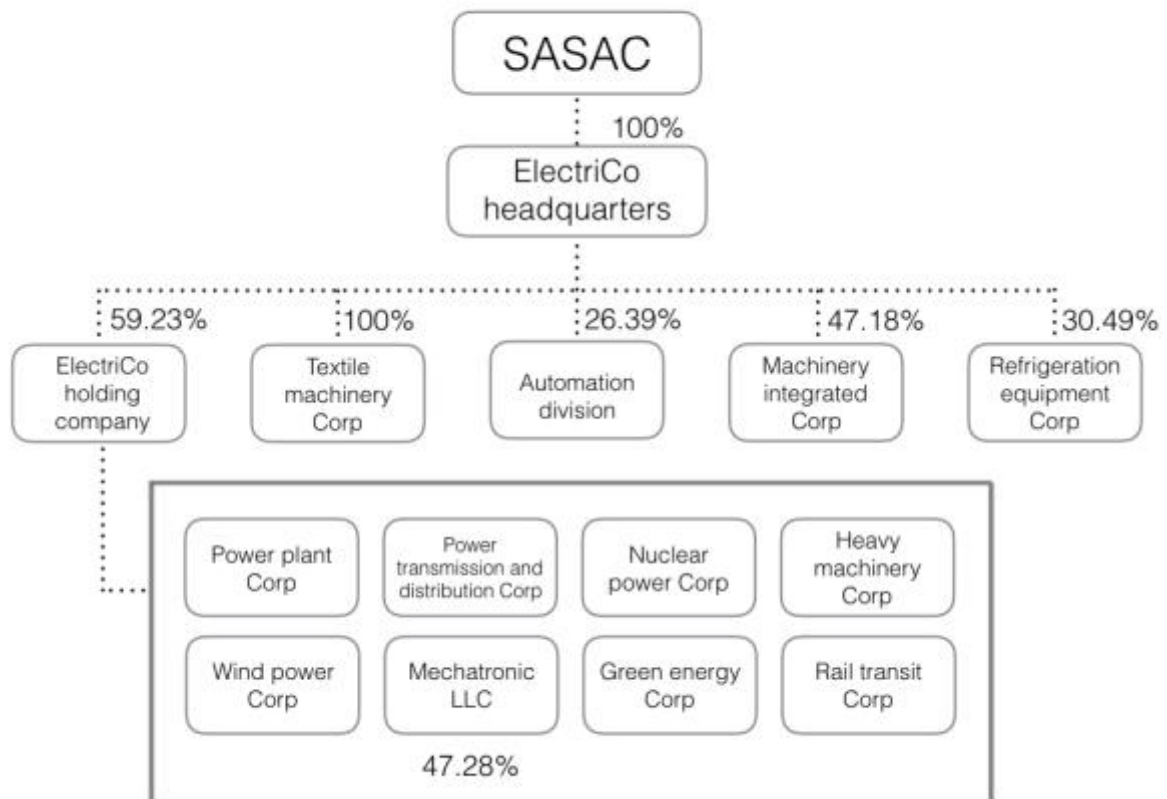
Wholly owned by SASAC, the ElectriCo headquarters functions as a semi-administrative body with many cadre personnel, who worked in the former Bureau, having remained in their posts. Whilst mostly now possessing various types of professional qualifications, these leading cadres controlling methods over the subordinates' managing matters are still somewhat political. Instead of directly intervening in day-to-day management, the leading cadres of headquarters still have substantial influence over management by setting tasks for the managing cadres at the subordinates (or "grass-roots" level in the CCP governing terminology). In terms of their role in the ownership structure, the leading managing cadres of headquarters also have a dominant say in the major five ElectriCo member firms' board rooms (see the headquarters shareholding distribution in the chart 5.3). In their words, the founding of the group in 2004 enabled the CCP to shape a new model of SOE management by "controlling personnel" and "controlling capital".

The five branches that are directly subordinated to headquarters are the results of the group's selection and integration of profitable or strategically important assets, which used to be affiliated to the original Association Corporation with various ownership types. All now listed on the Hong Kong stock exchange, these quality assets are defined as the group's "profit centres" in ElectriCo's post-2004 developing strategy. This is especially so for the ElectriCo holding company, the largest one of these five branches, which consists eight business corporations that are specialised in eight types of the groups' main businesses. OK? Along with such a high degree of asset concentration, the holding company is also where the group's professional managers are located.

Besides these highly market-oriented entities, there are also many non-business workplaces in ElectriCo's hierarchy, including non-profit-making working units and functional entities previously subordinated to the Bureau of industry. With corporatised management and new names, these workplaces remain in the group for the purpose of maintaining the former Bureau's responsibilities in the national

public services. One of the major administrative functions of ElectriCo group is to assess and award state-accredited ranks and titles to technical cadres. Inherited from the old Bureau, such power enables the member enterprises to pick qualified workers from their own institutes for the corporate research and development department. By the end of 2015, it was reported that ElectriCo comprises 286 subsidiary corporations with various non-private ownership types, seven national level research facilities and another 23 provincial/municipal, 5 “doctoral studios” and 6 “post-graduate studios”, which are state-certificated high education institutions that are authorised to award degrees.

Figure 5-3 Corporate structure of ElectriCo business group



5.3 Market

With five major electromechanical engineering enterprises integrated at the very beginning of the restructuring process, ElectriCo has set a very clear strategic goal - to become China's state-owned flagship of the electromechanical engineering market. They also have long aimed to become a global player since the 1995, when ElectriCo's headquarters was formed and replaced the original Bureau. In order to concentrate efficient electromechanical production in Shanghai, small-sized inefficient enterprises have largely been excluded from the Bureau's line-up of "grasping-big" enterprises when the business group was established in 2004²⁸. Overall, the group has taken an incremental path to restructuring and expanding since the official dismissal of the Bureau and the founding of ElectriCo's headquarters. In the local government's scheme of industrial development, the groups is now undertaking the task of becoming the city's leading corporation in clean energy industry and high-end electromechanical products manufacturing.

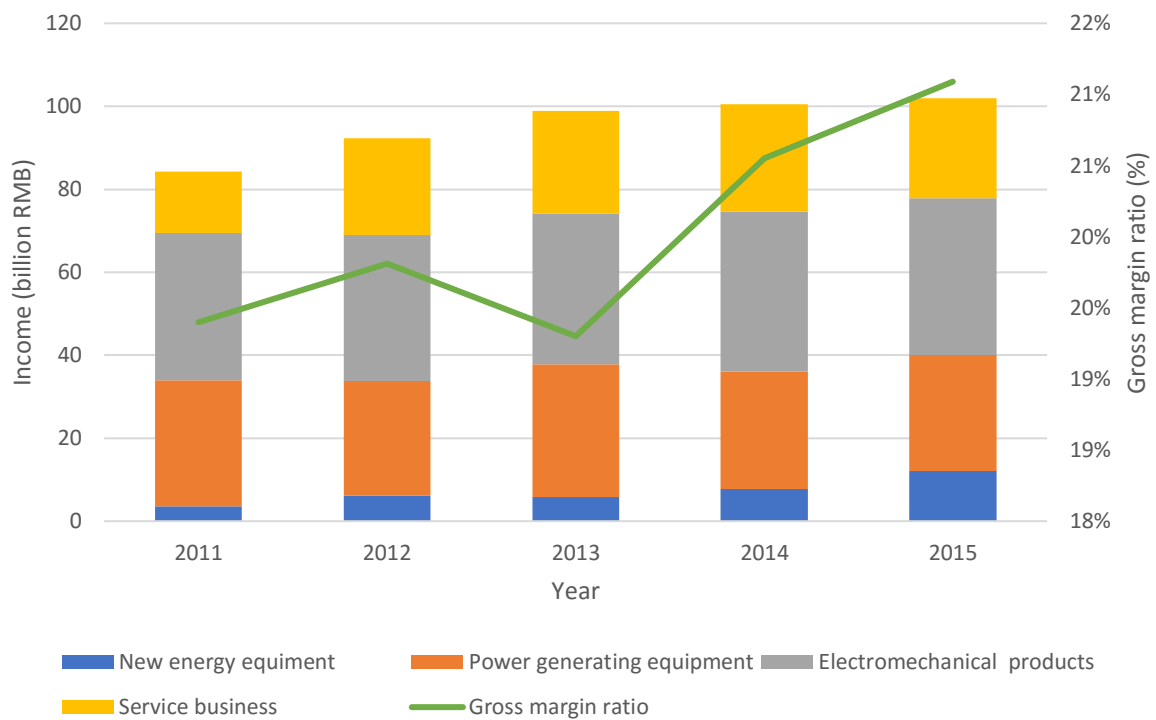
Today, ElectriCo is reportedly running four major types of manufacturing businesses: power generating equipment, electrical engineering products, new energy equipment and service businesses. Strategically planned by the group's headquarters, the subordinating enterprises and factories have been integrated into nine industrial corporations that specialise in particular types of production. From 2011 to 2015, ElectriCo underwent a relatively stable period of growth in all the main sectors. With a plan to solidify and further expand its traditional pillar production, the group aims to break into new market sector, such as wind farm devices and energy saving solutions for buildings. Such "cutting-edge" industries were set to be the areas where the group put their emphasis during the period of implementing the "Twelfth Five-Year Plan".

²⁸ To integrate similar types of production into the new institution, many enterprises were transferred to being under other industrial Bureaus' administration in the early period of restructuring. This kind of organisational adjustment was ongoing until the Bureau was officially dissolved in 1995.

5.3.1 Strategic plan

The group categorises its businesses into four sectors: thermal power plant developing and manufacturing, electromechanical engineering products, new energy equipment developing and manufacturing and service businesses. Each sector involves different business corporations and plants, but in terms of strategic decision making and accounting all these businesses are integrated at ElectriCo holding company according to their given categories.

Figure 5-4 ElectriCo's revenues from major businesses, 2011-2015



5.3.1a Thermal power sector

Integrated with the main state-owned thermal power device manufacturers in the city, the group's "efficient and clean energy" division contributes one-third of the group's total revenue. Since the founding of the group, ElectriCo has continuously been one of the leading thermal power generating manufacturers in the domestic market. The products include generating equipment, such as boilers, steam

turbines and auxiliary power units as well as power transmission and distribution equipment (PTD).

As the traditional production of Shanghai electromechanical industry had iconic significance, the assigned objective for the thermal power division during the “Twelfth Five-Year Plan” was to “continue to solidify the profitability” of the conventional productions and moreover, to break into overseas markets, such as Africa, the Middle East and South-East Asia. Rather than simply aiming to increase overseas sales of its thermal power products, the group was seeking to shift its business model from “traditional-style product selling” to a “service-oriented selling of power solutions”. In addition, through upgrading PTD production, the division was assigned the development of smart grid technologies. By integrating this new technology with the group’s clean energy products (developed and produced in other divisions), it is hoped that a powerful line-up of service-centred businesses providing energy solutions (or “smart businesses”) will be shaped, and become the group’s main engine of long-term profits.

5.3.1b Electromechanical engineering products

The group’s production of electromechanical engineering products is another major source of revenue. The size of revenues of this sector has only undergone slight fluctuation during the period of the “Twelfth Five-Year Plan” (see Figure 5-4). As the transformed form of another of Shanghai’s old iconic industries, this division of ElectriCo is expected to maintain the group’s dominant position in the domestic market, whilst at the same time being tasked with role of being the main protagonist in the shift towards manufacturing systems engineering equipment. The products of this business category include elevators, refrigeration compressors, machine tools, printing and packaging devices, basic mechanical components, automation equipment, rail transit equipment and ship crank axles. Among these, the companies producing “consumption-oriented” products (elevator and refrigeration compressors) were required to maintain their long-standing domination in the domestic market, or to “continue to be big and strong” (*zuodazuoqiang*). In the meantime, the production that will potentially become the

key parts of the future businesses, such as mechanical parts and automation, were designated to be the group's "key sectors", in which the group would preferentially invest and assign its most skilled personnel (or "*zuozhuanzuojing*", meaning being specialised, and being quality-oriented rather than quantity driven). There was also a sector of production being driven away for not complying with the group's overall strategy. That is, in 2014, after years of attempts to cease the profits loss of this production sector, the group ultimately decided to sell off the business group, thereby clearing painting and packaging devices from its line-up of products.

5.3.1c New energy sector

The new energy sector mainly comprises three types of production: nuclear power, wind farm technology and waste management. These businesses are where ElectriCo mainly invests for strategically adjusting the group's main business focus in future. The three newly founded corporations specialising in these business types are the group's direct answer to this transitioning goal. Only established for two years, ElectriCo's nuclear energy corporation has already become one of the leading nuclear reactor suppliers in the domestic market. Before the founding of the corporation, ElectriCo actually had a long history of producing nuclear plant equipment and parts, which were produced by small or medium sized plants. The new business corporation is expected to integrate resources, ranging from manufacturing to marketing, within one core business organisation. Since the founding, the corporation has avidly sought to break into the overseas market - it has been involved in the construction of a few nuclear power plants in Pakistan, Iran and Bangladesh. By 2015, it had received orders worth 15.42 billion RMB. Apart from the aim of further expanding, the founding of the business group also signifies the group's decision to shift business model of the industry. In 2012 and 2013, the nuclear business underwent a severe shrinkage in the aftermath of Fukushima nuclear disaster. As a consequence, all of China's nuclear energy plants and device suppliers were forced to suspend operations and the state ceased licensing new nuclear projects. After the restarting of the business as well as the founding of the business corporation in

2014, ElectriCo formulated its new strategy of nuclear energy business, namely, “Three-Management”- focused - “quality management (control)”, “project management” and “field management” This was aimed at shaping a new form of service-oriented nuclear business by benchmarking western standards of safety and operation.

Another of ElectriCo’s strategic key businesses, the wind farm business, has also been organised into a specialised business corporation. Initially developed as ElectriCo’s wind energy LLC, a joint venture partnered with another local wind farm suppliers, ElectriCo’s production in this area expanded rapidly after its formation in 2006. Today, ElectriCo dominates the industry, with 60% of China’s total installed capacity of offshore wind farms. During the period of the “Twelfth Five-Year Plan”, ElectriCo started to seek technological improvement through investing in a new joint venture, which involved partnering with one of the leading European engineering MNCs. The group’s current major concern lies in the rapidly shrinking profit margin of the wind farm products (discussed in subsection 5.3.2), and it is hoped that the business will soon break into the high-end market with new smart controlling technology.

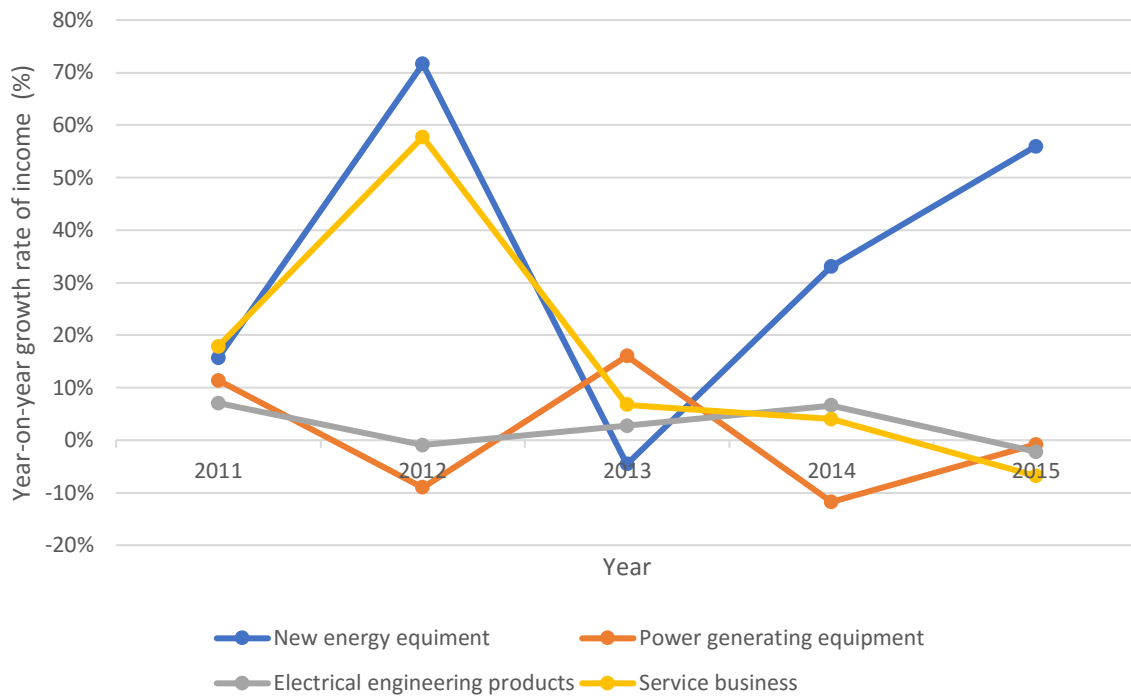
5.3.1d Service business sector

ElectriCo’s service business includes the supporting services of a variety of its products as well as supporting logistic and financial services. Compared to other business sectors, the service business sector is rather a joint name for the revenues from a wide range of unconnected supporting services than a well organised sector. Nonetheless, the total revenue of all these businesses has been rapidly increasing in terms of their proportion of total revenue, from 17.5% in 2011 to 23.58% in 2015. Such growth has largely been attributed to the group’s business-corporation-centred managing approach, which integrates supporting services with production at the Holding company level.

The current majority of the sector’s total revenue comes from the supporting services of ElectriCo’s power plant business in the overseas market, including examining and maintenance, e-commerce and consulting. The group now aims to

shift the service businesses' roles from being supportive to the main manufacturing businesses to being the core part of the "solution-oriented" businesses in future. It is hoped that this transition in service businesses will accelerate the group's progress in becoming an integrated system developer and supplier with global competitiveness.

Figure 5-5 Year-on-year growth rate of revenues from ElectriCo's major businesses, 2011-2015



5.3.2 *"Throwing away the burden", "sealing the bleeding wound" and "one big company"*

Despite the group's enduring success in transforming the state-run industries into a market-oriented corporation, it is still reported to be under the "transitioning pressure" of market shift. The biggest part of the group's overall deficit is created by the Heavy Machinery Corporation, which was formed in 2004 as the then newly formed group's response to the domestic heavy machinery market. Incorporated with the major former state-run machinery plants in the city, the corporation is the group's main entity having succeeded the local industry's heavy machinery

manufacturing, which had been regarded as the main contributor of the socialist state's heavy industry in the pre-reform era. Today, the corporation is troubled with deficits in successive years and in 2015, it registered a total loss of 0.83 billion RMB. Such "enduring bleeding" from the group's once pillar industry derives from multiple reasons, including outdated technology and a shrinking market. Also, the group has had trouble finding any new solution to incorporating the corporation's lines of production into other business sectors. At the end of the visit for this study, it was reported that the group was proceeding with a plan to restructure the heavy machinery business through financial means of public or designated asset replacement. According to the plan, a new limited liability company will be founded with the purpose of continuing only two types of production, casting-forging and grinding machinery, which are planned to be integrated into the group's nuclear power business in the future.

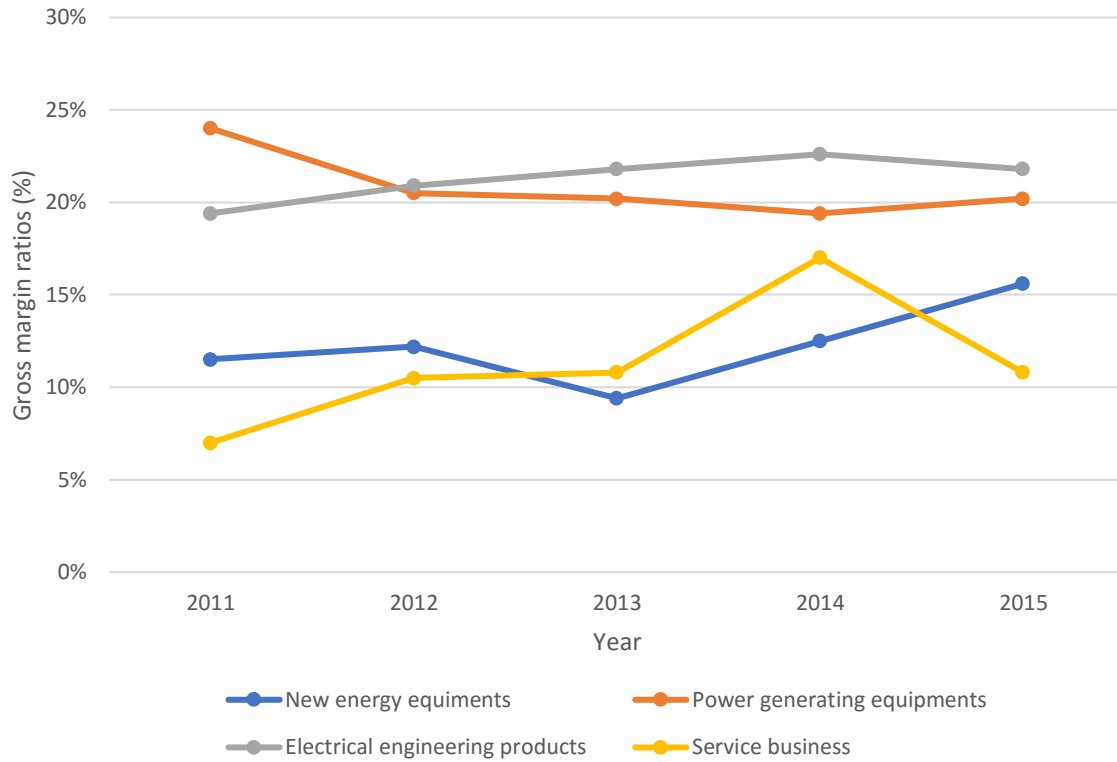
As for ElectriCo's thermal power, the profitability of this sector appears to have been robust during the span of "Twelfth Five-Year Plan", but the declining figures of gross margin ratio suggests signs of the business's long-term weakness. China's discouraging policies regarding coal-fired power plants²⁹ will inevitably squeeze ElectriCo's thermal power business in the future.

Apart from the "burden from the past", ElectriCo will also have challenging prospects in relation to its newly developed businesses as well as its current pillar industries. The wind farm business is another main source of deficit. According to the managing cadre in charge of the new energy businesses at ElectriCo holding company, the business "has been quickly on the fast track of ageing", with the profit margins of wind farm devices consistently shrinking and the group is lacking any good answers to the surging demand for controlling technology in the market. From 2013 to 2015, the deficits of the group's wind farm corporation were 0.55, 0.27 and 0.23 billion RMB, respectively. Whilst it does not contribute a great deal to the group's total deficit figure, the group is prioritising the "bleeding problem"

²⁹ In early 2016, the Chinese authorities legislated to cease licensing new coal-fired power plants in the future.

of the wind farm business as a long-term task for resolving given the business's importance in ElectriCo's strategic plan.

Figure 5-6 Gross margin ratios of ElectriCo's major businesses, 2011-2015



Like many Chinese counterparts, ElectriCo's wind farm division has been designated as having strategic importance by the state. In 2015, China's newly added wind power capacity was half of the global total of 63GW, which is more than the UK, Denmark and France combined have ever built. However, this does not mean that China is dominating the global wind power market in spite of it having an immense amount of installed capacity. In fact, the global market is segregated into two and whilst China is the colossus in terms of quantity, its market access is highly concentrated. That is, 97% of China's turbines come from 23 Chinese wind turbine OEMs, thereby shutting out most of the western counterparts. Conversely, the rest of world is dominated by a handful of western and Indian suppliers, without any Chinese ones being involved (Jesse Broehl, Renewable Energy World source). China's wind energy boom can largely be

attributed to the support of state policies, which grant Chinese wind developers and plant owners feed-in-tariffs.

Also like many other wind farm suppliers in China, ElectriCo is troubled with its "grid connection bottleneck". A study published in *Nature* (Lu *et al.*, 2016) suggested that the primary challenge to China's wind energy lies in that the current mass-production-driven model of industry is failing to adapt flexibly to the overall energy system. In the starting period of the market, China's wind farm suppliers expanded their business rapidly thanks to easy coordination with local governments in deploying small sized wind farms. However, such a "honeymoon" of the wind farm device market soon cooled down as it became saturated and the problem of power waste emerged, whereby the grid operator tended not to dispatch wind power given its intermittent nature. As coal still remains as the dominant power source in China, it is difficult for the grid operator to balance coal-fired power and wind power. Such an issue is a lesser concern in western countries, where mostly more flexible power sources are deployed.

The current national policies have set objectives to weaken incrementally the dominance of coal-fired power, whilst at the same time prioritising the development of electricity storage systems for reducing waste in wind power generation. Such an attempt at increasing the flexibility of the overall energy system is technologically challenging as coal-fired power plants are not usually flexible in adjusting their power output, which also means more wind power is being "curtailed" by grid. In light of these issues, the wind farm suppliers have little choice other than shifting their business focus from being product-oriented to new types of wind power systems driven by smart grid technology. This new field of technology is also where the state policies are directed at, despite there being no successful example among Chinese suppliers as yet.

5.3.3 Summary

With an incremental, expansive approach to transition, today's ElectriCo has successfully transformed inefficient, redundant pre-reform state assets of electromechanical engineering into being a highly organised, profitable business

group. Nonetheless, the old problem of “grasping big and letting smalls go” still remains in that the group’s pillar businesses, power plant equipment and electromechanical engineering products are now suffering from long-term depletion of profit margins. Consequently, the group is still on the ongoing path of clearing up outdated production, whilst at the same time putting strenuous effort into seeking new growth points with new technologies and management methods.

ElectriCo’s strategic choices made to respond these challenges pertain to three aspects. Firstly, the group will significantly be inclined to invest in new energy businesses, whilst at the same time weakening the current dominance of the thermal power sector. Secondly, the strategically important, cutting-edge businesses, will also be restructured with a new framework involving the development of integrated systems to replace the present product-oriented business model. By doing so, it is hoped that the group will prevent the new types of business from “prematurely becoming ‘sunset industries’”. Thirdly, the major manufacturing sectors will hopefully transform to be solution-oriented businesses, which are centred on service rather than product. In sum, new energy industries and service businesses will be ElectriCo’s future orientation in relation to its strategic transition. However, neither the new form of clean energy business or solution-led manufacturing industry had been fully shaped by the end of “Twelfth Five-Year Plan” span. Moreover, the eagerly anticipated growth of the wind energy business is now one of the major sources of deficit. As a consequence, the group’s overall profit growth is still driven by its power plant related businesses and industrial goods manufacturing.

5.4 The regime of labour management

5.4.1 Workforce structure and its transformation

In ElectriCo’s annual report in 2014, the group’s total amount of staff (“*zhigong*”) was reported as being 147,843, among which the number of production workers accounted for 51.5%. The rest were staff of a variety of non-production

professions, including managing and administration, 24%, engineering, 21.1% and research and development, 2.7%. The proportion of non-Hukou office workers is still comparatively small, but the number is growing rapidly since ElectriCo's restructuring in 2008. Almost 70% of 20-to-35-year-old highly educated managing and engineering employees are from outside the Shanghai region, while middle-aged senior employees, who control the higher levels of management and CCP posts are predominantly indigenous Shanghai residents. Among production workers, only a very small number non-Hukou migrant workers are employed directly by the group itself; most of migrant workers are agency workers (or "dispatched workers", "*laowu paiqiangong*", means "dispatched" from the labour agency), who account for 21% of the total amount of production workers.

Reduction in the number of workers is an ongoing process in ElectriCo since the former Bureau's restructuring in 1997. In 1997, the head office of the original Bureau was merged with its subordinating entity "the ElectriCo corporation", which was emerging as being market-oriented, having been established in 1985 as the state-led Bureau's response to the marketising reform. As the top level of ElectriCo's management had been replaced with profit-oriented managers, the new head office of the business group immediately focus on reforming the "iron rice bowl" by removing surplus workforce from posts. Given few working units of ElectriCo were subject to closure or lockout due to the group's essential role in Shanghai's heavy industrial sector, the continuously shrinking size of workforce was as a result of management-controlled negotiation of layoffs and "resettlement". Directors, engineers and middle managers in poorly performing work units were forced to leave their posts, but still retained their titles, basic wages and pensions (off-post, or "*ligang*"). The volume of laid-off production workers was relatively small in comparison with other "letting go" local SOEs, but almost 70% of low-skilled middle-aged workers (over 53 for males, 43 for females) were compelled to agree to early retirement ("internal retirement", or "*neitui*") by 2003. At the same time, job vacancies on the shop-floor were replenished with agency workers.

Another wave of workforce downsizing started in 2008, which was the same year when the national congress approved the new law of labour contract. Both ElectriCo's PM offices and the trade union were under pressure from the guidelines that required SOE cadres to solve the enduring problem of "unequal pay for equal work". After almost two decades of workforce restructuring, the majority of low-skilled production posts in ElectriCo were dominated by agency workers by 2008. However, the new legislation did not immediately come into effect, which brought concerns to ElectriCo owing to the rising financial pressure of increasing labour costs. Reducing dependency on cheap, temporary contract workers was agreed between the SOE cadres and its SASAC leaders. As a result, collective contracts signed with the labour dispatching company were suspended, which also meant that there was few chance for ElectriCo agency workers to continue to work when their contracts were due to be renewed. At the same, ElectriCo had to carry out the policy of selecting and training a few "excellent ones" from agency workers, in order to fulfil the requirement of co-opting and improving the diversity of core workers. By 2013, according to the ElectriCo trade union's report, the proportion of agency workers had been reduced to 21% among shop-floor workers for all levels of production units of the business group.

5.4.2 Institutionalising collective consultation - an "innovative" framework

ElectriCo has a long history of seeking harmony in labour relations through the means of collective consultation. For years, the contents and process of actual collective consultation has been dominated by the managers in the member firms. Given the diversity of types of production in ElectriCo, the leading cadres at the top level often tacitly permit managers at the grass-roots level to do whatever they wish towards keeping businesses profitable. Consequently, in ElectriCo's transitioning history, there has been an enduring lack of organised opposition to the enterprises' market-driven decisions on labour. As a result, when the current business group of ElectriCo was founded in 2004, the newly formed headquarters had to find a centralised solution for dealing with the huge amount of unresolved dispute cases. It formed a "petition office", where there are cadre officials who are appointed to negotiate with disputing workers. At the same time, the group has

consistently been looking for ways to make the collective consultation system work as an institutionalised solution for creating harmony. In fact, such all-group level of collective agreement is still based on the group's market-oriented politics and the collective contracts are no more than formalistic regulations containing leading cadres' consensus.

ElectriCo's codified form of collective consulting rules emerged in 2014, in response to the group's "Twelfth Five-Year Plan" agenda of further promoting collective consultation. There are two main agenda items in ElectriCo's labour relations transition during this period: 1) to be in line with the state's ideological campaign on "rule by law"; and 2) to strengthen headquarters' control over the making of labour rules in the workplaces, with less control of the CCP apparatus. Regarding the ideological purpose, the headquarters' CCP had long hoped to resolve the group's "problems left over from (transitioning) history" through non-political means. However, it was not until the period of "Twelfth Five-Year Plan" period, when more political pressure was exerted on the SOEs, urging them to promote the idea of "rule by law", that the group began to compile a rulebook on collective consultation rules. Also, the long-standing issue of being unable to implement labour rules inside non-state-owned entities was another concern behind the compiling of the rulebook. It has been often reported that foreign managers have expressed hostile attitudes about the new labour legislation passed in 2008. Headquarters hoped that both non-CCP related managers and ACFTU officials in these organisations would make collective agreements on the basis of given bargaining rules, rather than resorting to political intervention from its level.

According to this rulebook, all negotiating parties in ElectriCo workplaces are required to act in line with the collective contract regulations made by the Shanghai Municipality as well as the decrees and guidelines regarding female workers' rights. The rulebook also sets out the format for collective agreements among the group's member firms, stating that "negotiating parties should be in line with CCP's 'People First' principle, and abide by the collective negotiation mechanism, fundamental rights of employees and perform the relevant

obligations as determined by the basic convention and proposals of the International Labour Organisation (ILO)".

To initiate a collective consultation process, the management at member enterprises should, firstly, select representatives from its major departments: general accounting department, HR department and administration office. At the same time, cadres from the trade union are to join with their managing counterparts by representing workers' collective interests. From selecting representatives to signing collective contracts at the final stage, the entire procedure is subject to the given instructions in the guidelines. Nevertheless, it is mentioned that representatives of both sides should have an informal meeting prior to the formal process of collective consultation, in order to "make friendly contact" and exchange opinions. In principle, the formal consulting session will not happen unless a rough agreement on the draft of the collective contract has already been made beforehand. Therefore, in effect, the consulting session is a de facto formality of a collective agreement that demonstrates regulated harmony in the workplace.

The matter of making changes in wages is always raised by the management. That is, even though a trade union usually represents workers' collective interests in wage and working hours in practice, it is never mentioned that the union has actively made proposals on these issues in the formal reports of collective consultation. It is not clear whether workers' voices are seriously taken consideration in any form of informal negotiation that takes place before the formal consultation and the outcomes of consultation are always in line with the member firms' business interests.

5.5 HR-oriented strategy of new workforce configuration

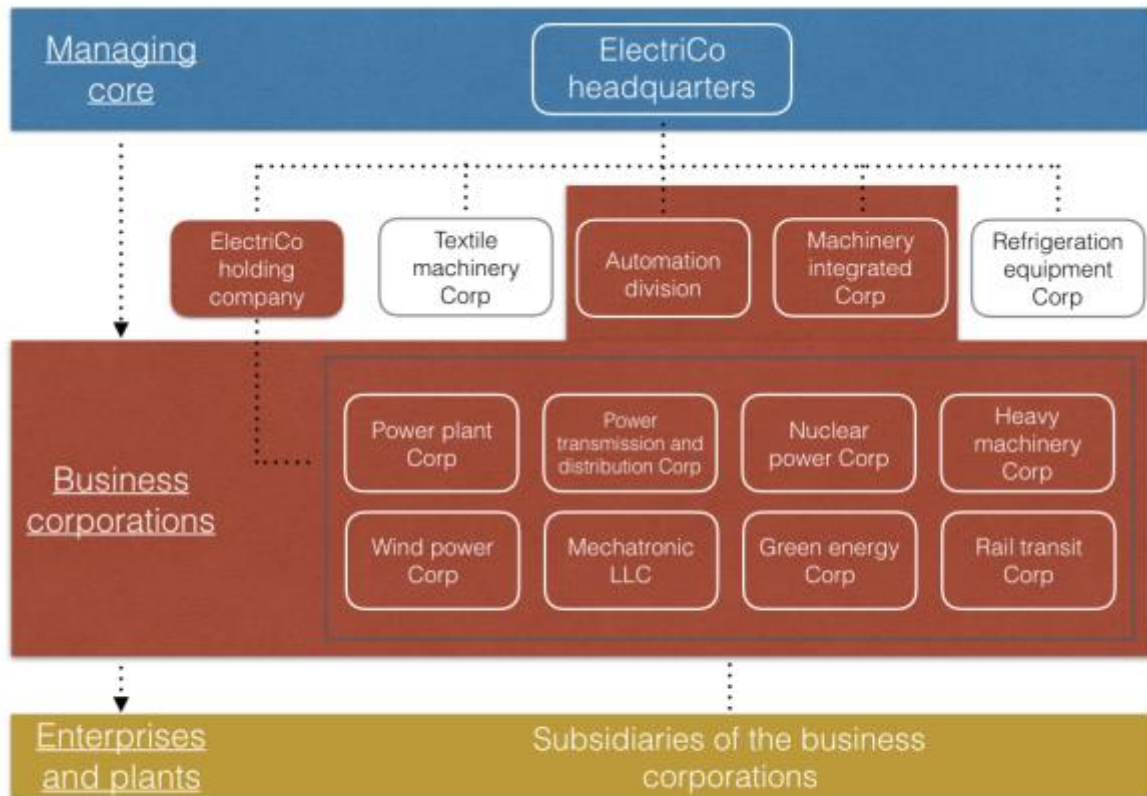
5.5.1 *"Managing" workforce segmentation*

The group deploys a three-tiered framework to form a hierarchical management system (see Figure 5-7). In this scheme, the group headquarters is defined as the "supreme strategic centre". The second tier is called the "profit centres" of the

“managing platform”, which covers eight industrial corporations owned by ElectriCo holding company as well as two corporations that are directly managed by headquarters, i.e. the automation and machinery integrated corporations. The managing team of ElectriCo holding company functions as the core decision making entity of this tier of the framework. These ten business corporations, altogether, form a line-up of the group’s “core” businesses, comprising the current main sources of profits as well as businesses regarded as future orientations in terms of strategy. Meanwhile, the other two business corporations that are directly managed by headquarters are excluded from this line-up, because the businesses run by these two, textile machines and refrigerating compressors, are not considered as being part of the group’s future orientation as planned, in spite of the two corporations’ reasonable profitability and operating conditions. The third tier of the scheme, called the “production and cost centres”, is the level at which the group’s member enterprises and plants are managed.

The design and deployment of the system are the outcomes of the group’s attempt at acquiring “advanced management concepts and practices” through cooperating with one of the leading engineering MNCs based in Germany. In the group’s “Twelfth Five-Year Plan”, the three-tiered managing system deployed in the German partner was suggested as a “highly recommended model” to emulate owing to its effectiveness in centralising decision making regarding technological orientation. Also, the German corporation’s ability to coordinate organisations with different production categories was another reason why the “three-tiered” system was favoured by ElectriCo managers, who hoped to integrate different business corporations in order to develop new forms of businesses driven by integrated system designing and solution consulting services.

Figure 5-7 ElectriCo's hierarchical managing scheme



5.5.2 "Talent" selecting and the management system

To select workers who have leadership potential, the management scheme includes a HRM-driven selecting and promoting mechanism, which was designed to give chances to all kinds of workers. Initiated along with the group's campus recruiting project in 2004, the "talent selecting" mechanism originally only targeted the graduate recruits, offering them a roadmap to careers within the ElectriCo group. Named as the "Y-shaped" career roadmap, the scheme gives graduate recruits optional choices to become technological or research professionals or to join the group's management and administration personnel. The recruits are subject to at least four years of training, apprenticeship and job-rotating in order to be promoted to the cohort of "core talent pool", within which the "young talent" will be considered as the group's long-term employees. After

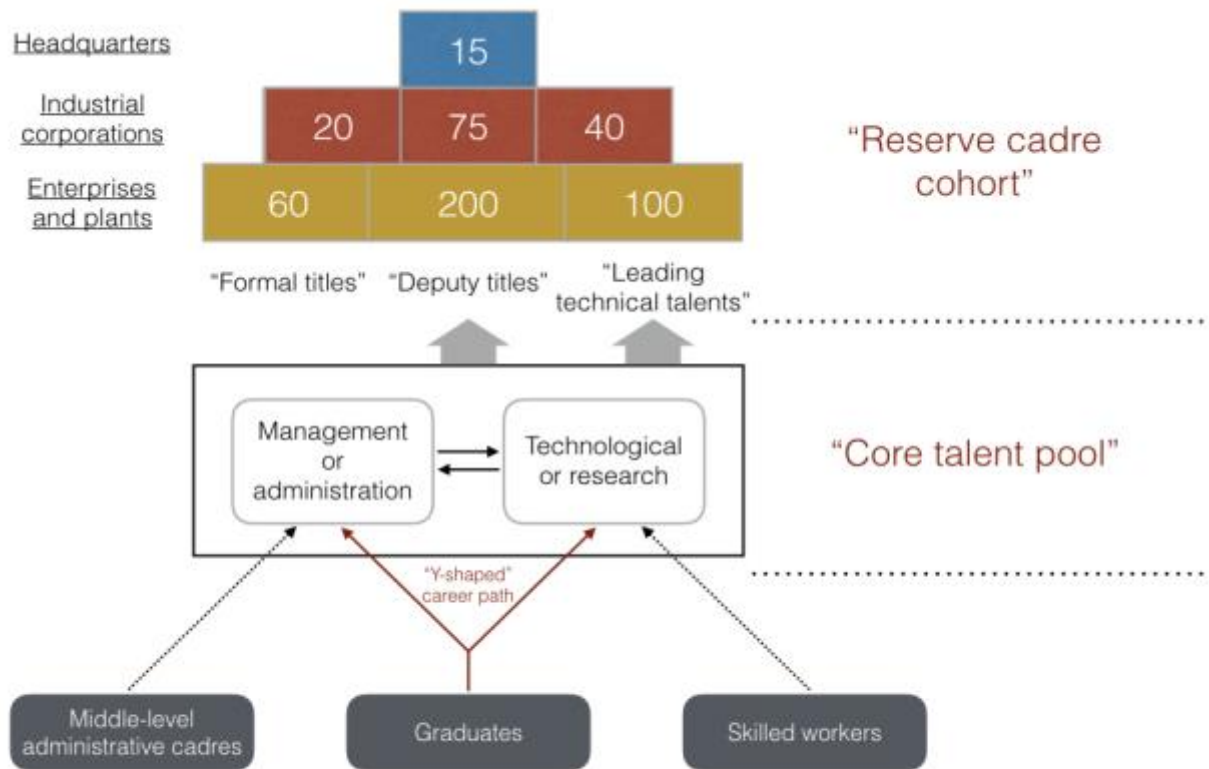
another five years of working experience in the group's ten core business corporations, they are given opportunities to be selected into the "reserve cadre cohort", which is the ElectriCo CCP's rear echelon of key leading management and party governing posts at either business corporation or headquarters level.

Today, the selecting scheme is being widely deployed all across the group, rather than merely treated as an experimental HR project piloted among graduate recruits. Similar performance assessing means are applied to the existing office workers and skilled engineers and technicians, offering them the same amount of training, but limited opportunities of job rotating and internal recruiting. In other words, the chances of being selected for the "core talent pool" for those who have entered the group through external recruitment only lie in the results of performance assessment.

Also, the selecting process of reserve cadres has expanded to all personnel in the group. Solely selecting from the "core talent pool", the group aimed to select 510 "reserve cadres" (2015 figure)³⁰ from all levels of the group, including from the subsidiary workplaces of the major business corporations. Different from its piloting stage among graduate recruits, the system is now not only designed to transit capable workers to higher levels of the group hierarchy, but also to form a cohort of maverick cadres at the grass-roots level. As one of the HR managing cadres at ElectriCo holding company put it, all new candidates of this reserve cohort are simultaneously required to possess market-oriented skills as well as the political virtues of "being willing and capable of communicating with the masses", and these "talented" workers' experiences at the grass-roots level are valued in that the group's cadre cohort "need to approach these subsidiary factories and plants actively."

³⁰ The number slightly varies annually.

Figure 5-8 ElectriCo's "talent" selecting and promoting scheme



5.5.3 Becoming cadre – a HR-led solution

Within the reserve cadre cohort, only the candidates for "deputy titled" posts and "leading technical talents" are transited from the "core talent pool" through HR-driven means. Candidates for "formally-titled" cadre posts are still selected through behind-door political negotiations. Among these three types of potential leading cadres, only those with the "formal" and "deputy" titles are the cadres who possess political power. Meanwhile, those "leading technical talents", as one of the newly invented political titles during the "Twelfth Five-Year Plan", will be only granted consulting roles in decision making on various issues regarding the group's strategy. Previously, as the technical professionals were selected from business corporations or subsidiary workplaces, these candidates were commonly chosen because of their leadership potential or insightful knowledge in

terms of market and technology orientations for the group as well as having talent regarding internal politics.

This fusion of various types of cadre candidates reveals three aspects of the long-term strategy that are embedded in ElectriCo's party politics: "technological innovation" (*kejichuangxin*), "innovative entrepreneurship" (*chuangxinchuangye*),

Box 1: *ElectriCo's to become cadres, an ideal "technical cadre" should possess following "hidden traits" – 1) being knowledgeable about trends of the industries either domestically and overseas; 2) being "adept" in networking within academia; and 3) being sufficiently competent to become leader of a research. "Competency model" was created based on a conceptualised framework developed by the HR department, in which all ElectriCo talents' traits are categorised as two major types: "explicit traits" and "hidden traits". In their definitions, the "explicit traits" entail the candidates' professional skills, educational background, records of awards and honours, etc. The "hidden traits", on the other hand, are largely defined as management-related skills that enable potential "talents" not to be limited by their professional career paths. Regarding the group's efforts in selecting capable technical personnel team. (Source: ElectriCo's draft manual of competency model for cadres)*

and "marching out" strategy (breaking into overseas market, or "zouchuqu" strategy). In the group's "talent" selecting system, these sketchily addressed strategic goals are operated in accordance with the deployment the HR-oriented practice of the "competency model" (CM) among the group's managing and technical professionals.

By the time I finished my study visit to ElectriCo, the CM assessment had not been successfully applied in action - the plan was dismissed by the group's leading cadres in its piloting stage. The HRM department required full access to the group's core strategy making circle so as to get a full picture of the group's future orientation in terms of technology and market. In addition, the CM piloting team raised a request to conduct a series of structured interviews with the group's leading cadres. These interviews were designed for "spotting the 'hidden traits'" of those "successful" technocrat cadres, who had started their careers in ElectriCo with technological jobs and who then landed managerial and administrative roles. However, this plan was called off by headquarters, worried that these interviews

would “make cadres doubt the uniformity of the group’s cadre corps”. This indicates that the cadres are doubtful the suitability of measuring their merits through non-political means.

5.6 Summary of the case study

The ElectriCo group is the outcome of an incremental transition of Shanghai’s local state-owned electromechanical engineering industry. Driven by the CCP apparatuses in charge of managing and supervising the industry, the transition of ElectriCo group has a history where the party intentionally selected and integrated the most profitable and strategically important assets of the industry. Today’s ElectriCo group is one of the leading manufacturers of thermal power plant devices and electromechanical engineering equipment. The group is also looking at engaging in new high-technology markets, such as clean energy and smart grid systems, with hopes of strengthening the group’s focus on these new businesses in future.

Transforming from the original industrial Bureau to today’s business group, the ElectriCo CCP has long been attempting to distance itself from day-to-day management. The group now deploys an organised approach of managing a variety of member enterprises through a corporate structure and all ElectriCo subsidiaries have been given full autonomy in relation to marketing and sales. Meanwhile, the group has deployed a hierarchical personnel managing system across all subordinate workplaces. Driven by HR personnel, the system is designed to make ElectriCo workers’ capabilities measurable and quantified, so as to forge a new cohort of core workers for meeting its new strategic needs in relation to capable managerial and technical “talents”. The career paths designed by the group’s HR department apply to all workers in the group and various types of jobs across different ElectriCo workplaces are open to the selected “talents”. In terms of labour relations, working conditions, such as wages, working hours and bonuses are all collectively agreed between the management and ACFTUs of ElectriCo workplaces. All these negotiations are regulated by the group’s rules of collective consultation, which set a clear protocol on the process of collective

consultation. Despite such an institutionalised form of bargaining, the group ACFTU is rather powerless in its relations with management as these rules predominantly favour the group's business interests. Other than addressing the state's guideline of labour protection, the ACFTU largely plays a consulting role in the process of collective consultation.

The managing cadres of ElectriCo are substantially influenced by HRM ideas and concepts. The professionally trained HR managers have a big say on the issues regarding effective ways of staffing managerial and technical personnel at the middle and grass-roots levels. However, nomination of high-level cadres is still behind the curtain as the HR-oriented standards and measurement do not apply to the group's leading cadre personnel. Even if performance-oriented merits still matter a lot in cadre promotion, there are always many other political-related virtues involved in the process of appointing cadre employees, which the HRM department are not allowed to assess.

Chapter 6 Case study: “TexCo”

TexCo is a local state-owned business group that manufactures, designs and sells garment and textile products. Its predecessor, the Shanghai bureau of textile manufacturing industry, was a socialist administrative body governing the whole industry in the Shanghai region in the era of the planned economy. After successive waves of state-led transition and restructuring, TexCo now has diversified division in low- and medium-end garment production as well as selling, garment trading, fashion designing and industry-used textile manufacturing. The group holding corporation and its subsidiaries reportedly employed 48,919 people and created total revenue of 32 billion RMB in 2014. As such, the business group is among the country’s largest textile and garment companies.

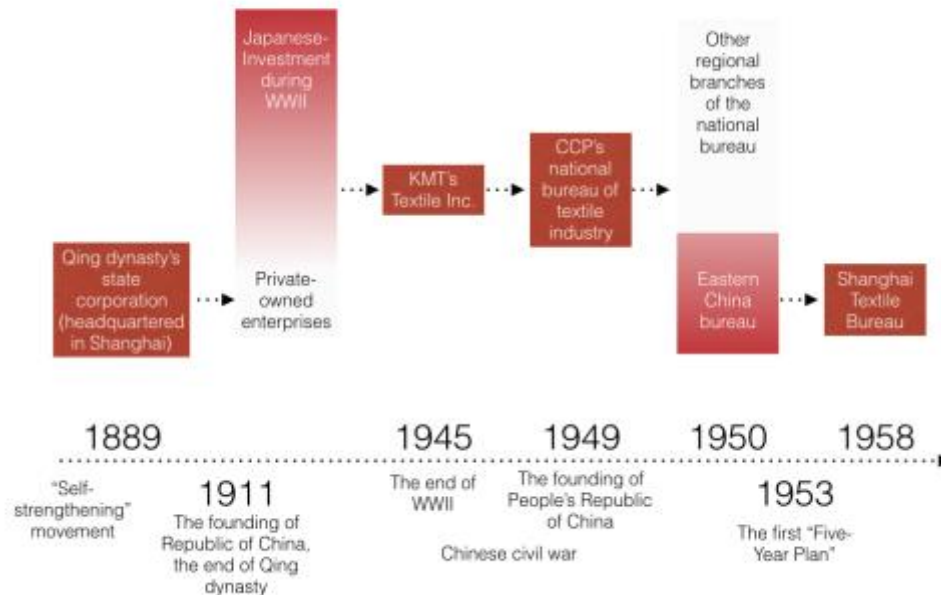
6.1 History of the transformation

The eastern coastal region of China, including the city of Shanghai, has historically been China’s centre of the textile and handicraft industry since the middle ages. In the mid-nineteenth century, after successive military failures against western powers, the imperial government of the Qing dynasty was forced to open up Shanghai as a free trading port for foreign capital. With skilful indigenous craftsmen and its convenient location regarding logistics, Shanghai quickly became a popular destination for investing in textile production. As a result, foreign-owned factories in Shanghai became the origin of China’s modern textile industry. True self-dependent textile production of an industrial scale also emerged in the same period, with the “Shanghai Mechanical Textile Bureau” being established in 1889. This was under the supervision and sponsorship of Li Hongzhang, the most powerful political figure at that time, and also one of the most prominent pro-modernising reformers in China’s late imperial era. Governed by Li’s own staff, the bureau was regarded as an important part of his “Self-Strengthening Movement”, an ambitious political experiment aimed at modernising China’s technology, while remaining its traditional cultural values and retaining its institutions. Li’s hope of developing China’s self-dependent textile industry through one single strong corporate was quickly dashed by a series of

unfortunate events: accidental fires, hyperinflation, and another grand military defeat. The bureau was gradually dissembled into a few private-owned, highly specialised manufacturing entities during the first few years of the twentieth century.

Subsequently, the government was unable to take steps to nationalise Shanghai's textile industry until the end of World War II. In 1945, the nationalist government (KMT) took over all formerly Japanese financed textile factories, and centralised them within one single state-owned corporation, China Textile Industries Inc, arguably, the biggest textile company in the world. Headquartered in Shanghai, the corporation was directly supervised by the KMT's Economy Ministry, and funded by state bankers. During the period of China's civil war, the entire centralised textile industry was controlled by the KMT for the sole purpose of producing military supplies. In 1949, Chinese Communist Party (CCP) took over the corporation headquarters after the People's Liberation Army successfully besieged and captured Shanghai. As a result, the original institution of KMT corporate was replaced with the CCP-led bureau in 1950, which continued the old corporation's headquarters management function. The primary goal of the communist government in early years of the PRC was to restore China's economy from the damage brought about by years of wars. Hence, regulation over existing private-owned companies and factories was limited. In fact, the post-civil-war economy kept its hybrid form until 1953, when the CCP's central government embarked on the radical development of nationalising industry in order to implement the PRC's first Five-Year Plan. According to this plan, private-owned textile production entities in Shanghai were transferred to being under the charge of the newly formed Shanghai Textile Administration Bureau, with full state ownership. Led by the local CCP in Shanghai, the new bureau was ordered to specialise in producing high-end products by "fully utilising Shanghai's pre-reform industrial advantage". From then on, this political arrangement of leaving Shanghai's textile production under the local CCP's direct governance remained unchanged until 1992.

Figure 6-1 Transforming history of TexCo (1889-1958)



During the 1980s, Shanghai's textile industry witnessed a "golden age" of growth thanks to the CCP's opening-up reform policies. The manufacturing units were encouraged to set their own profit agenda, rather than following one single plan covering every aspect of the industry. Moreover, the local textile industry was both financially and politically supported by the local CCP. With the aim of making China's economic reform in the eastern coastal region a focal point for development, the CCP in Shanghai systematically promoted its local industries by relieving state intervention in firm-level management and encouraging firm-level party leaders to create "new ways" of running the economy, including the establishing of joint-ventures with foreign partners and participating in the emerging tertiary industries. However, the market reforms of the 1980s also brought a surge in foreign direct investment (FDI) as well as a decreasing amount of state supplied cotton. At the same time, the responsibility for paying state workers' permanent wages bill and benefits for 500,000 workers as well as

280,000 retirees was gradually transferring to companies and factories. By 1990, the industry had become the top debt creator in Shanghai's local state sector. The textile bureau experienced continuous drops in total profit at breathtaking speed, from 1.8 billion RMB in 1989 to 0.7 billion RMB in 1992. Contrasting with Shanghai's emerging state-owned automobile manufacturing business, which created profits worth 1.4 billion RMB, in total, with only 24,000 workers in 1992, the textile industry was viewed as a "deeply troubled" domain by the local CCP and was required to carry out radical reforms so as to improve efficiency.

In 1992, all textile production units in Shanghai were required to proceed with the process of "internal rectification" for eliminating inefficiency, which led to enormous laying-off of "Danwei" workers in Shanghai between that year and 1998. The radical plan of liberalising the industry was directly down to political pressure: Deng Xiaoping's "southern tour" to Shanghai conveyed the central CCP decision makers' will to invest heavily in Shanghai, in order to develop the city as "the financial and trading centre in east Asia". In order to respond to the guidelines from the central government, Shanghai's local CCP designed a roadmap for scrapping the city's "giant-sized", "poorly performing" state industry, so as to enable the city to become a new powerhouse involving a market-oriented economy, in which tertiary industry would be prioritised. In terms of the textile industry, the municipal CCP committee issued a guidelines document, stating that it should be upgraded to being consumption-driven, rather than retaining its role as the nation's supplier of strategic resources. So as to abolish the industry's traditional cotton yarn production, 164 related production units were forced to close in 1992, amounting to 1/3 of cotton products manufacturing. In 1995, the Shanghai textile bureau, the governing body of the state-managed industry, was restructured to be a holding corporation. Despite removing party cadres' direct intervention at firm-level management, the factories and companies continued to be affiliated with the new corporation through the newly installed ownership structure.

Whilst the local government had already lost its power of making managing decisions owing to the corporate structure being replaced by autonomous

management, it was still the CCP's concern to eliminate outdated productivity in the textile industry in order to relieve the local debt problems created by TexCo. In 1998, the state council decided to bail out TexCo's three major listed companies³¹, which at that time were still lacking in financing capacity. As the new corporation's biggest shareholder, Shanghai's local government remained its main power in supervising the central-government-enforced process of reducing spindle numbers on the shop floor.³² At the same time, these low efficient units in the industry were also forced to participate in central government's debt-to-equity swap plan, with their debts being bought by the TexCo holding corporation, which would later sell these to state-owned banks. Accordingly, TexCo established a new company in 1998 - an entity with the partial function of an assets management company, directly managed by the holding corporation, in response to the central government's pressure regarding debt swapping. By 2003, there were 144 TexCo affiliated units that had transferred debts to banks, amounting to 2.9 billion RMB. Consequently, the holding corporation gained full control of the SOEs that were originally governed by the old bureau.

In 2004, another milestone of TexCo's historical transition occurred, the group's leadership decided to scale down its original major manufacturing business, which had experienced a constant deterioration in profit since the company's mid-1990s restructuring. Aiming for "integrating high-quality assets and scrap the inefficient production", some traditional and historically prestigious production of TexCo in the industry were totally abolished in the aftermath of the 2004 restructuring³³. From 2004 to 2007, there 552 working units were written off from the list of local Danweis, in accordance with the group's scheme of "upgrading production". These working units were ordered to close or transfer to other profitable units' control, but there are few records regarding the details of these changes. Also, there is evidence indicating that any process of transferring workforces was undertaken during that period. In fact, the fate of these failing units have only been mentioned

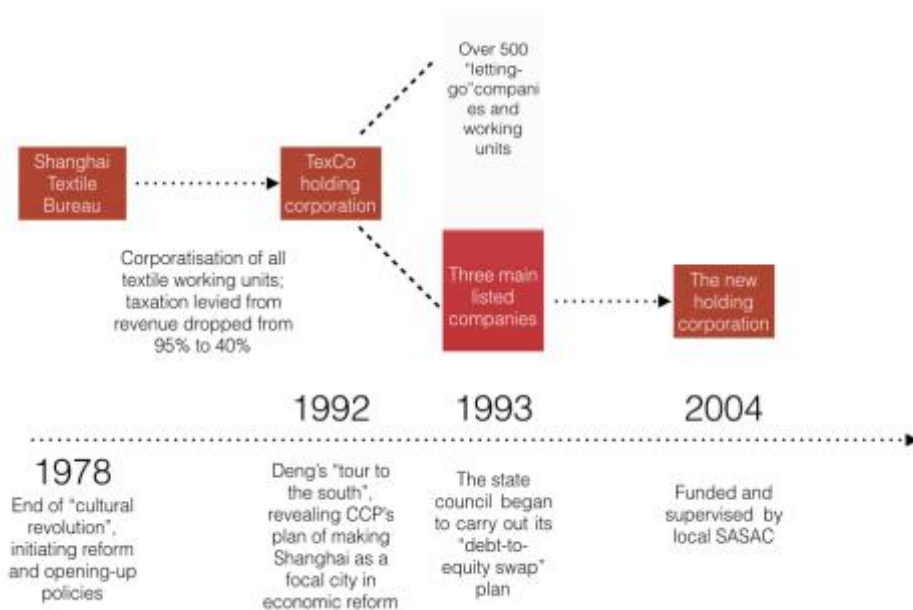
³¹ They are the corporatised bodies of the industry's main producer of consumer goods.

³² Resulting in cutting 10 million spindles in three years.

³³ Cotton textile production

in head office's guidelines in a rather vague manner, referring to them ending up with a variety of possible outcomes, including ordered bankruptcy and sell offs³⁴. As a result of these changes, only 15% of the group's revenue in 2014 was contributed by garment factories and companies, of which the brands mainly provided low- and medium-end products in the market.

Figure 6-2 Transforming history of TexCo (1978-2004)



After four years of transition, a new corporate structure of TexCo was shaped on the basis of the firm's efforts to shrink its size and workforce downsizing (called by leading officials the group's "second start of a new undertaking"). Also, it was hoped that the new formation of the business group would bring TexCo's leading officials new aspiration of the group's strategic transition towards "hi-tech and

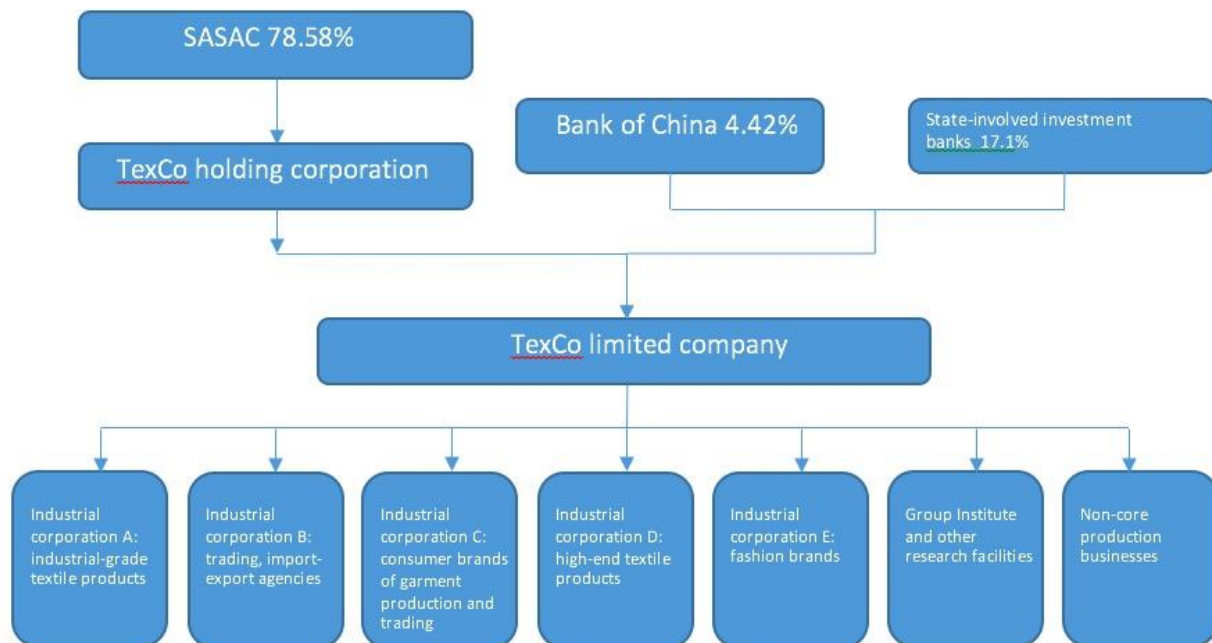
³⁴ It was stated that there were eight approaches for leading officials to terminate their units in order to secure TexCo a future of "completely existing outdated manufacturing" : ordered closure, suspension, merger, transferring ownership, moving location, selling off, bankruptcy and mutually transferring administrative responsibility between different regions. (关, 停, 并, 转, 迁, 卖, 破, 划)

fashion” into reality. These transitioning efforts have resulted in the group’s radical reduction in manufacturing as well as a surging trading business, from which the majority of TexCo’s revenues are now created. In fact, in 2014, the trading businesses contributed 26.5 billion RMB that accounted for 83.2% of the total revenue. At the same time, only 12.1% of the group’s revenue was contributed by the garment factories and companies. Regarding the remaining 4.7% of revenue, this was attributed to a range of tertiary industries mostly not related to the textile industry and this is discussed later.

6.2 A hybrid control structure

After the 2004 restructuring, a new TexCo hierarchy emerged based on multiple shareholders. With 78 percent of shares held by the local SASAC, TexCo is one of the largest state sector governing body’s fund receivers. As demonstrated in the illustration shown below, a limited company was founded to play the role of the new group of core business, which comprises five business corporations with various business foci. A few non-commercial bodies that used to be attached to the pre-reform bureau were also incorporated into the new corporate governing structure. For example, the group’s “central academy”, which used to be Shanghai’s main textile research facility, directly controlled by the original industrial bureau in the Maoist era, was assigned to be led by the managers with the same level of party-system titles as the business corporation managers, in a corporatised form. In addition, there are another four corporatised entities, categorised as “companies for other functional purposes”. These working units’ original functions were primarily to provide a variety of supplementing services before the TexCo working units’ corporatised transformation, such as logistics and cleaning. Some tertiary services (like property management) were also integrated into the area of business run by these kinds of working units.

Figure 6-3 TexCo corporate structure



According to TexCo's original restructuring scheme in 2004, the original bureau's centralised powers were designed to be scattered through this new corporate structure, with the intention of replacing party-system governance with "modern enterprise managing". In light of this, the holding corporation's function has been defined as a capitalised core entity of Shanghai's state-owned textile industry, from which top TexCo apparatus should have withdrawn its direct control in running the business. However, in reality, there has been no clear organisational boundary between the limited company and the share-holding corporation. In particular, many leading officials hold professional titles from both corporate bodies and the two companies continue to share the same office building. In addition, the two corporate bodies are usually referred together as "the head office" by TexCo staff. Moreover, managers and directors who hold job titles of the limited company are largely working in various professions in the holding corporation (the parent company in terms of ownership structure). The leading officials in this "headquarters" are pre-dominantly party cadres, who are experienced in working

in the state-owned textile industry. Additionally, during the period of corporatising transition, most of these cadres kept their jobs and obtained new titles in the restructured new corporation by undertaking mandatory professional training provided by TexCo. After such an “enforced knowledge upgrading” within the top circle of management, these old cadres were automatically entitled to qualifications that gave them automatic job positions in the new formation of the group. As a result, this new “headquarters” is still strongly driven by party political decisions.

Run in the form of a joint-venture, these business corporations permit the “head office” to remain in control of these manufacturing plants and enterprises through a complex ownership structure. This capitalised formation of the corporate system enables TexCo’s leading officials to fulfil a double simultaneous agenda in relation to forced transition. On the one hand, managers in business corporations and their spin-offs are given full autonomy in formulating brand developing and marketing strategy as well as for attributing responsibility for profit and loss. Whilst on the other hand, “the head office” is still able to control and supervise their performance at a distance through the CCP’s cadre evaluating system, where cadres’ careers are directly determined by the amount of political tasks they accomplish. For instance, after all major garment brands were transferred under Business Corporation B’s management, 30% of shares of the “Fusiliers”, the TexCo’s most profitable garment brand that used to enjoy a nationwide popularity in pre-reform era, were held by the “head office”. In 2005, over half of the managing party cadres were approached by their superior official from “head office”, with the intention of directing them away from their posts. They were given option of either to stay and accept the risks from the performance assessing system, or leave for a rather more “relaxed” post arranged by the “head office”. In the same year, Business Corporation B announced a new managing team that was selected from various TexCo working units to replenish the vacant managing positions left by old cadres, who had opted to leave. From then on, the enterprise was given full autonomy in designing brand strategy and making marketing decisions, while Business Corporation B, its parent company in terms of the

ownership relation, has been continuing to grasp tightly the arrangements regarding the managing of personnel.

6.3 Market

After the government's radical implementation of "grasping big and letting small go" in 1992, mass yarn production substantially diminished in Shanghai. State-owned textiles enterprises were ordered by the local CCP to shift their focus to high-value added businesses. Today, TexCo has fully quit from its pre-reform role as the nation's major cotton yarn supplier, which used to be one of the state-assigned roles of the city's state-owned textile industry. Today, in line with the CCP's local development plan, TexCo now aims to become a new form of state-owned textile corporation that concentrates on hi-tech fibre production and fashion desi.

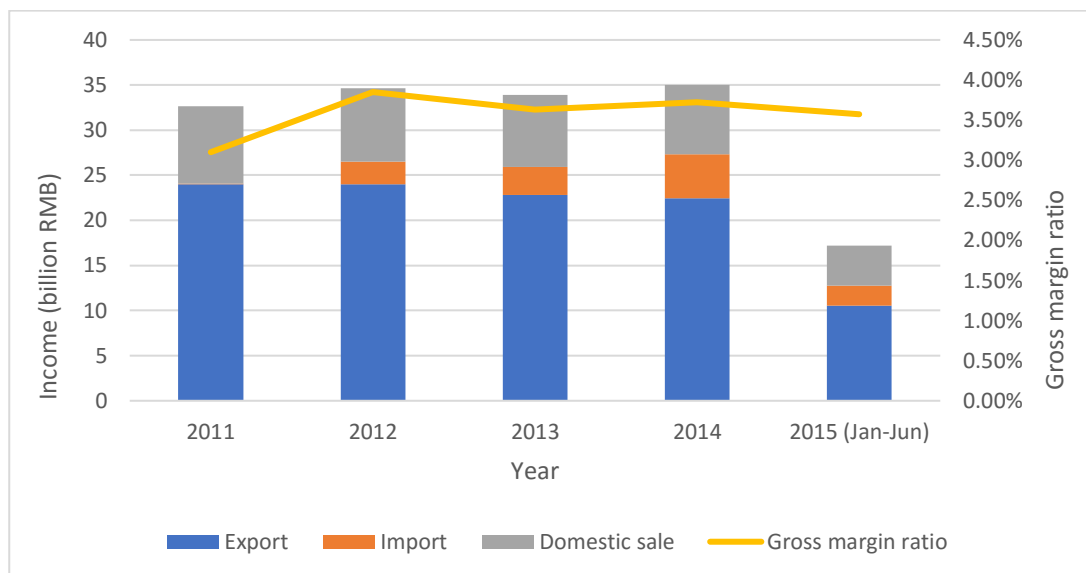
Whilst most of local the SOEs in textile powerhouse regions have transitioned into being small-sized suppliers concentrating on a single type of production, TexCo was one of the very few that was determined to continue as a large-size, highly integrated corporation. Nowadays, it is reportedly running three types of business, which are self-claimed as its "main businesses" (*zhuyingyewu*): manufacturing, trading and property letting as well as a managing service, which is categorised as "other" in most of the group's official reports. Subsidiary companies and plants are integrated into TexCo's five major business corporations based on different categories of production and service they are assigned to offer. So far, export and import outsourcing is still its main profiting engine, but the group's leadership is determined to direct TexCo along a path that will lead to it becoming a leading high-end textile manufacturer.

6.3.1 Trading sector

TexCo is the only textile SOE in the top 10 list of China's biggest garment export companies and its trading business has continued growing since the business group's restructuring in 2004. In 2014, as aforementioned, the revenues from this business reached to 34.98 billion RMB, accounting for 83.2% of the group's total

income. The “Twelfth Five-Year Plan” set the new task of shifting from high-cost, low value-added production for TexCo’s Shanghai-based garment companies, which formally focused on and domestic consumer-oriented market and hence, many were forced to close or restructure. After being integrated into TexCo’s Business Corporation C, the self-brand managing group shifted their focus from the overseas market to the domestic one. As a result, there was a constant shrinkage in export revenues from 2011 to 2014. Nowadays, TexCo’s trading business is dominated by businesses controlled and managed by Business Corporation A, the majority of which are outsourcing agency companies.

Figure 6-4 TexCo's incomes from trading business, 2011-2015 (Jan-Jun)



Meanwhile, TexCo is actively looking at overseas destinations for investment, with the hope of making the group’s export business better positioned in the global value chain. To this end, it has founded a new cotton plantation in Sudan, and has been moving the group’s labour-intensive production to Myanmar and Bangladesh through establishing joint-ventures with local stakeholders. TexCo’s intentions behind these overseas moves are twofold. Firstly, the group’s export-oriented production has suffered consistent shrinkage of profit margin due to the ever-weakening overseas demand since the financial crisis in 2008. Hoping to bringing production back to the group’s export business, these overseas raw material

sources will guarantee that the corporation's consumer-oriented OBMs re-engage with exporting business with a cost efficient value chain. Secondly, TexCo hopes to reduce costs in its importing business by buying-out local material suppliers. Overall, by driving production overseas as well as controlling local suppliers, the aim is to achieve the transitioning task of "quality over quantity" and creating more added value in its exporting and importing business than previously.

6.3.2 Manufacturing sector

Since the global financial crisis happened in 2008, profits made by TexCo's manufacturing sector have been continuously declining. According to SASAC, TexCo has again "become a patient", who "suffers from chronic disease caused by low value-added production pattern". The worries for TexCo's manufacturing sector are twofold. Firstly, the continuously dropping demand from the overseas market was a major reason for this decline. Secondly, TexCo's low-end manufacturing sector had to deal with the growing pressure from rising costs of materials and labour force, especially the latter. Specifically, the cost of the "paying for harmony" strategy of accommodating labour disputes within general workforce in the midst of a legally raised wage standard was another enormous financial burden for TexCo (details will be discussed later, see "influences from new labour law"). At the same time, the group was under pressure to upgrade its production in accordance with the "Twelfth Five-Year Plan". According to the plan, the TexCo subsidiaries that targeted the low-end consumer brand market, such as the domestically focused suit and shirt companies, would be forced to close and transfer their personnel to Business Corporation C, TexCo's core OBM corporation, by 2012. Since then, the newly integrated business corporation has been on course in forging a centrally managed manufacturer that targets the high-value added domestic market.

Figure 6-5 TexCo's revenues from TexCo's main manufacturing sectors (2011 - 2015 Jan-Jun)

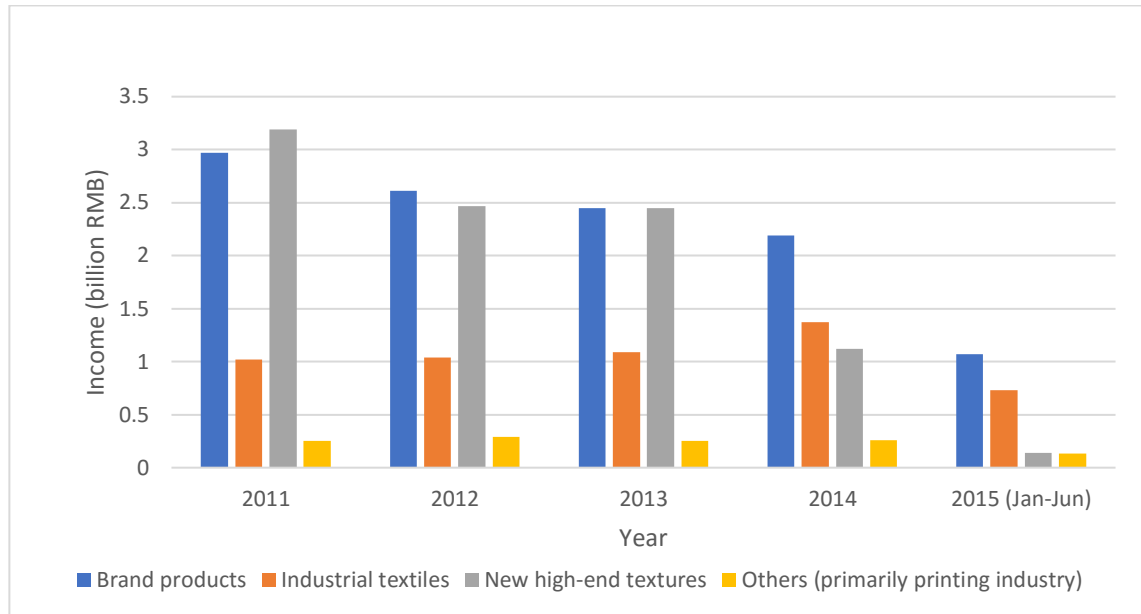
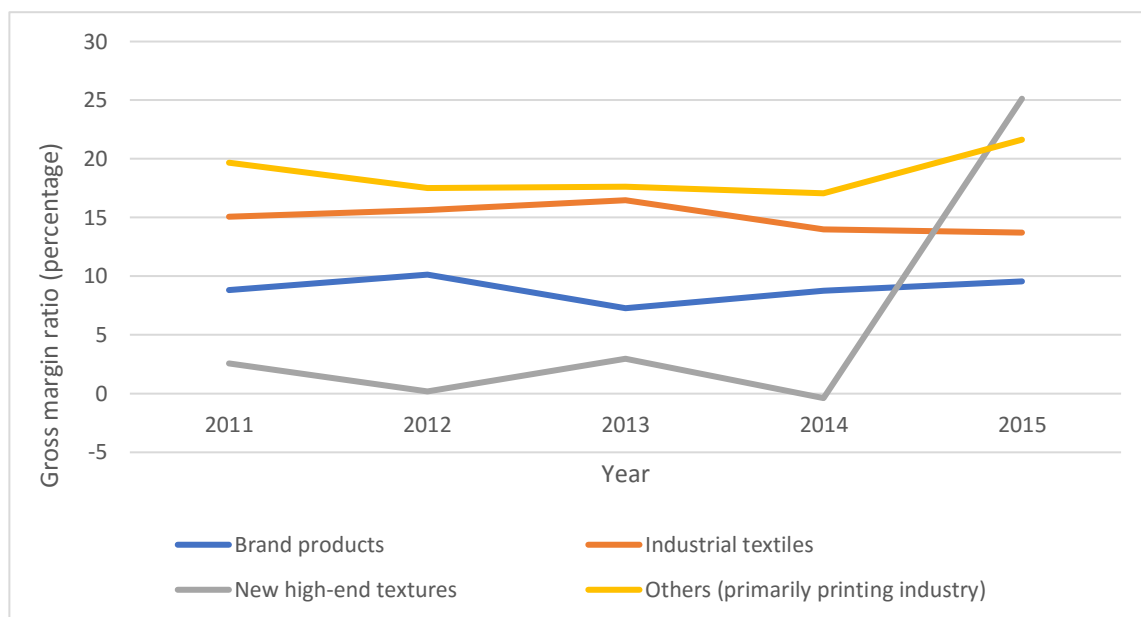


Figure 6-6 Gross margin ratio changes of main manufacturing sectors (2011- 2015 Jan-Jun)



Nowadays, the group's manufacturing sector comprises three categories of production: industrial textiles, consumer brand textiles and high-end fibres. Firstly, industrial textiles is the fastest growing type of production after the

group's reconfiguration in 2010. In particular, TexCo's recent booming automobile textiles have kept expanding with a steady rate of profit margin of around 14% each year. With an income of 1.47 billion RMB in 2014, this represented a growth of 39.59% over the previous year, for at this time TexCo's Business Corporation A had succeeded in implementing its production chain all over the country. It now has suppliers in seven different cities, with the line-up of products including: car carpets, car interior fabrics and safety belts. Its cooperation with one of the leading German automobile company has contributed 20% of the total revenue that the entire automobile textile sector created. In addition to this, TexCo is one of the biggest producers of civil engineering fabrics, having 30% of the market share in the greater Shanghai region.

Secondly, the brand consumer sector now mainly targets the domestic market. TexCo's current major brand producers used to be the biggest state-run garment factories that were run as the national centres of clothing rationing during the planned economy era. After waves of restructuring and transformation since the radical reforms in early 1990s, they have been downsized to be subsidiaries attached to TexCo's Business Corporation B, exclusively producing and marketing those old state brands. Contrasting with the centralised approach that their predecessors adopted so as to base the entire production chain in Shanghai, these companies now have spin-offs all over the country through insourcing, mainly being used as cotton yarn and fabric suppliers in garment production. These spin-offs outside Shanghai, mainly located in the neighbouring provinces, such as Zhejiang and Jiangsu³⁵, supply 40% of the fabric used for TexCo's garment production, and the remaining 60% comes from external procurement. In the mean time, TexCo's Shanghai-based OBM fabric companies have been targeting the production of high-end branded yarns and fabric only. With regards to marketing, Business Corporation B is now the central decision making body of all

³⁵ As the state-controlled textile industry disintegrated, a new cluster of the textile industry emerged in these provinces from the 1980s onwards. Predominantly comprising township and village enterprises (TVEs), many being collective-owned, these textile enterprises quickly replaced their state-owned counterparts in Shanghai, as the domestic powerhouse of cotton yarn suppliers.

branded fabric and garment products, directly controlling in-store selling all over the country. In 2014, with these attempts at integration, over 113 costly inefficient TexCo brand stores were forced to close across the country, and they were replaced by 270 new chain stores. These changes caused a hike in sales in that year of 10.73% when compared to 2013.

Thirdly, high-end functional fibre production is the newest category in TexCo's manufacturing sector. With the hope of forging another growth engine in the future, headquarters decided to merge three major hi-tech companies into one single corporatised body, Business Corporation D, in order to strengthen its control over strategic planning. In 2014, the largest of the three, "LJ fibre", was

Box 2: PSA, or "Polysulfonamide Fibre", is a type of heat-resistant fibre developed by Chinese scientists during 1980s. Similar to DuPont's "Nomex" in terms of function and usage, it is widely used in a variety of China's self-dependent industrial projects, ranging from fire-fighting equipment to thermal-protective coating of military aircraft. TexCo's PSA products were chosen to be used on China's first manned spaceship in 2003. (Excepted from SASAC's 2011 yearly report, p5)

enforced to halt production and initiate restructuring in order to eliminate outdated productivity. Because of this restructuring, the revenue from hi-tech sector reportedly shrank dramatically by 70.18% in 2014 compared to the year before. Founded in the form of a joint-venture in 1994, LJ was assigned with the purpose of developing and selling TexCo's new polyester products. However, its oversized workforce (571 workers by the end of 2014) and invention of a new type of polyester of questionable profitability were not compatible with TexCo's scheme of forging an R&D powerhouse for high-end fibres. Since then, Business Corporation D has halted the process of developing the new form of polyester products. Regarding the other two brands, "Unique" and "TAL", they were assigned the targeting of different market sectors, namely, high-end chemical fibres supply and heat-resistant materials production, respectively. "Unique" is a transitioned state-run factory, which specialised in producing chemical fibres in the pre-reform era. "TAL" transitioned from being TexCo's affiliated research facility, which was the Shanghai textile bureau's core research unit responsible for

China's independently developed heat-resisting material, PSA (see Box 2), to being a company in its own right, but continuing with this research. From 2013 onwards, "Unique" started to expand its overseas market through directly selling its newly developed heat storage fibre to a German garment producer, which accounted for 1% of total production in that year. Apart from this small progress towards creating a diverse line of production, "Unique"'s profits are still mainly made for the domestic market, in which it has already won the reputation of being China's leading high-end fibre supplier. Meanwhile, "TAL" has assigned as being TexCo's model enterprise that produces and sells its self-developed technologies.

6.3.3 "Others"

The majority of the reported revenues from this sector pertain to the income from TexCo's property letting business.³⁶ Since the radical downsizing reform of Shanghai's local textile industry, a large amount of plants and facilities have been left abandoned. To manage these "relics" left from the early period of reform, TexCo has its own property managing subsidiary. Begun as an office based in headquarters and subsequently becoming a self-managing company, it now runs businesses of letting and offering tenement administration services. Some of those properties located in urban central areas are used as TexCo's affiliated tertiary industries, such as restaurants or hotels owned by other TexCo companies. Many of the others that are located in Shanghai's old industrial areas are rarely used for commercial purposes owing their disadvantageous locations. Former dormitories and administrative buildings have been refurbished and tenanted for living purposes, while plants and warehouses have generally been left idle in the long term.

Since 2011, TexCo has been urged to utilise these properties for its industry-related purposes by the local CCP. Specifically, in the group's "Twelfth Five-Year Plan", the call was made for idle properties to be properly utilised to benefit the

³⁶ The other small portion of this officially claimed "other sectors" is TexCo's R&D related services, including one testing company and four publishing units that edit and publish academic works on the textile industry. They are functional units rather than profit makers.

group's "main businesses". According to the official document, these lands and properties are not supposed to be put up for sale. Instead, they are expected to be used as part of TexCo's plan of forging new profitable businesses, such as in relation to the fashion industry and advanced textile technology. Moreover, the areas surrounding these old state industrial zones are to be transformed into a new cluster of emerging industries. In particular, in relation to those abandoned plants, the local government's hope was that TexCo would invest in recycling these buildings to become art studios and lofts that would attract artists and fashion designers to these areas. In accordance with these guidelines, 94 percent of the abandoned plants have been incorporated into the city's new "fashion zone", being let to fashion industry related tenants, thereby attracting rental incomes worth 0.9 billion RMB by the end of 2014.

6.3.4 Summary

After over two decades of transformation, TexCo nowadays has completely stripped away Shanghai's historically significant production of cotton yarn and labour-intensive weaving industry. With the aim of rebuilding a local state-owned textile industry based on low cost and high added value, all the remaining companies and plants are now integrated into five major business corporations. These are tasked with centralising those units' managing power so as to make TexCo a large state-owned business group, a high-end textile manufacturer and a leading OBM in the fashion industry.

The ambition of TexCo's "Twelfth Five Year Plan" is ultimately 1) to shift the group's current profiting pattern from consumer-oriented OBMs' supplying business in overseas trading to brand and marketing-oriented production and sales in the domestic market, 2) to strengthen the group's development and production of high-end fibre with an integrated hi-tech focused business corporation, and 3) to develop TexCo's fashion-oriented brands by utilising the group's idle properties, with the aim being to attract world leading designers to its newly developed fashion zone. In sum, hi-tech manufacturing for the fashion industry is set to be TexCo's future orientation in terms of its marketing goals.

However, the group's related businesses still account for very little in terms of size as well as the proportion of its total revenue. That is, profits from the group's backbone businesses, such as outsourced trading and domestically oriented garment production and sales, are still predominant in its income and the planned future industries have yet contribute significantly to the corporation.

6.4 The regime of labour management

6.4.1 Workforce structure and its transformation

Based on the 2014 data available to the researcher, the entire business group of TexCo now has 19,737 workers in total, among which there are 9,674 long-term contracted workers, 2,752 agency workers, and another 4,406 are categorised as "other types". Among these, there are 10,063 workers are reportedly "off-post", meaning that over half of reported number workers are not actually working, but are still registered as receiving off-post wages and pensions. Besides these, there are unknown number of redeployed workers, described as fairly large amount, who still receive minimum living wages from TexCo.

There has been a vast shift in the structure of labour force in TexCo's transforming history since the early 1990s, with the state's plan being to "close, halt, merge and transfer" (关停并转) SOEs with poor efficiency. A radically implemented "letting-go" policy caused large scale of laying-offs and the redeployment of state workers in Shanghai's state-owned textile industry. With a rapid shrinkage of the number of workers from 0.6 million to no more than twenty thousand in 2014 ³⁷, TexCo has witnessed a fundamental change from a state-planned textile and garment manufacturer to a market-oriented enterprise that is heavily engaged in trading and design businesses. Traditional "Danwei" workers have increasingly been replaced with graduate recruits and migrant workers in the wake of the SOE's

³⁷ According to another report, the 2014 number was fifty thousand. Given the inconsistent nature of the statistics, the number of workers who were "actually working" in the both pre-reform era and at present are deployed for the purpose of historical comparison.

forced transformation. Nowadays, the majority of the formal workforce are highly educated, highly skilled office workers or technicians, who work for the enterprise's primary profitable trading business.

In spite of TexCo's efforts of shaping a workforce focusing on the fashion industry, traditional labour-intensive production units still remain. These factories are the result of an ongoing process of merging and restructuring low efficient working units throughout the period of SOE reform, since early 1990s. Inside these factories, there are the business group's remaining "Danwei" workers, who were preserved by company's leading officials during the period of layoffs owing to their high skill levels and prestige on the shop floor. Agency production workers are also widely deployed at the shop floor level in those factories, on average accounting for 12% of the total number of workers of this type of work unit. This contrasts with the very small proportion of agency workers, at around 5%, in the major trading business companies, who are mostly hired for periphery jobs, such as security and reception posts.

With regard to TexCo's large relocated workforce, who left their working units but were promised pension and minimum living fees, this is still a heavy financial burden as the corporation continues to be responsible for providing welfare to its former workers. Unlike the previous case of ElectriCo, there is not a highly organised cost centre that focuses on managing off-post workers' wage and pensions as well as responding to their appeals. Instead, the cadre-managing unit and "human resource management" department at TexCo "head office" are given full power in managing the pension fund as well as in resolving individual incidents of rights of appeal. Owing to the chaotic policy change during the period of restructuring, much ambiguity regarding the interpretation of regulations ensued. As a result, a major part of these departments' routine work was responding to workers' grievances through various means, including individual persuasion to negotiating with groups of workers who had collection petitions. Whilst these departments have put a considerable amount of effort in an attempt to standardise and regulate the procedures regarding the resolution of labour

disputes (mostly, “leftover problems from history”)³⁸, these disputes are still largely addressed through informal means of negotiation.

6.4.2 Labour relations transition and rules making

Like most of their counterparts in state sector, TexCo has established a system of collective consultation in its workplaces by following related legal relations and party guidelines. The corporation has a long history of deploying collective consultation for directing labour disputes into a formal channel. In 1993, the state-run textile industry was subject to massive state-driven workforce downsizing that aimed to cut the number of workers from 550,000 to 40,000. In the absence of a formal framework for legitimising such a marked shift in the amount of labour required, the former textile bureau introduced a “collective consultation” system and collective contracting in a few selected working units for “piloting” purposes. TexCo’s plan for implementing the new system of employment relations comprised three steps, as follows 1) First off, a few working units with few excess workers were selected to pilot the collective consultation. 2) Next, cadre leaders were asked to study the successful piloting cases and then to replicate the method in the units they were responsible for. 3) After most of the enterprises in Shanghai’s state-owned textile sector had provisionally signed collective contracts with firm-level unions based on the aforementioned collective consultation, the leading local textile ACFTU and the representatives from the textile bureau signed Shanghai’s first industry-wide collective contract. In 1997, in accordance with the collective contract signed between the TexCo holding company and the TexCo ACFTU, over 80 thousand state workers were removed from their posts through early retirement, reassignment or buyouts. In the same year, there were nine additional collective agreements signed at TexCo’s first “Congress of Workers and Staff” (CWS)³⁹, covering the collective agreements on issues, such as wages, rights

³⁸ There was also pressure from the local ACFTU demanding firm-level unions to solve the problems by fulfilling the Xi administration’s recent guidelines in relation to “ruling by law”.

³⁹ This is the platform in which “collective consultations” actually take place and it is largely ceremonial rather than a real arena for collective bargaining between interest-based parties.

of female workers and agency working conditions, etc. Since then, the CWS has been organised every year in April for annually updating collective contracts.

The collective contract signed by the TexCo union and the holding company is more a guidelines document than a contract specifying rules on key bargaining items, such as wages and working hours. By way of setting the political agenda, the contract updates tasks in relation four aspects every year: 1) strategic planning of the workforce, 2) harmony among workers, 3) safety in the workplace, and 4) aid and support for the workers who are suffering from illness or a heavy financial burden. Subsidiaries' management and the firm-level ACFTUs also need to sign collective contracts, in which there are specifications regarding wage levels, working hours and the rules on bonuses. It is worth noting that the collective contract signed at the top level of the TexCo group guarantees all subsidiary enterprises the power to adjust wage levels in accordance with their own business situation. Moreover, the subsidiaries' management and grass-root ACFTUs come to an agreement on the contents of collective contracts prior to the formal signing of the group's "top contract". Given such a formalistic nature of the group's collective contract, there is little room for TexCo's headquarters to enforce decisions on wages and working hours through formal bureaucratic channels.

To ensure various subsidiaries achieve the "greatest common divisor"⁴⁰ in relation to the collective contract, the TexCo ACFTU seeks to impose political pressure on collective consultation. It sets three principles of consultation for all subsidiary firm-level ACFTUs:

1. *Wage and working hours specified on the contracts should be higher than the legal lowest standard;*
2. *Collective consultation is supposed to go beyond "merely bargaining" so as to "create a contributive atmosphere among workers" with "TexCo characteristics";*
3. *Firm-level unions should have "big-picture thinking" to ensure the collective consultation is conducted in line with the group's needs regarding workforce replacement.*

⁴⁰ A commonly seen Chinese political term that stands for seeking common interests.

In light of these principles, the procedure for signing the group-level collective contract is predominantly through informal negotiation and communication between the various levels of cadre officials. Before the formal signing ritual at CWS, the ACFTU officials need to conduct large-scale inquiries among all TexCo subsidiaries so as to obtain a comprehensive picture of the various types of labour-management relations – the annual agenda listed in the final text of the collective contracts should be generated from this stage. Then, a draft is passed among the administrative and union cadres so as to collect their opinions. Any objections or doubts from the subsidiaries are heard through the channel of party cadre meetings. Whilst the ACFTU claims to hold the perspective of “seeking common points while reserving difference” in the preparation of group-level collective consultation, in actual political negotiations its officials strive to eliminate “differences” by imposing political pressure directly from the headquarters party committee. The formal signing of the group-level collective contract does not happen until the group ACFTU feels confident that the proposed political agenda is feasible for all the subsidiaries.

The group-level collective contract comprises four components, the main group contract and other three contracts specialising in particular issues that take the form of supplementary documents in relation to wages, female workers’ rights and workplace safety. From 2010 to 2014, a few adjustments were made to the listed political agenda in the main contract. In particular, subsequent to the initiation of the “Twelfth Five-Year plan” in 2011, strategic workforce planning came to involve a series of political campaigns aimed at selecting and showcasing TexCo’s “model workers”. According to the contractual terms, these campaigns entail skill competitions as well as “collective study” sessions among all types of workers in TexCo. The winners of these competitions are entitled to become TexCo’s “*model workers*”, which is not just a prestigious title, for it also a piece of propaganda used for showcasing TexCo’s new objectives and the new standards for being a capable worker in the new era of transformation.

With regard to harmony in workforce, the contracts signed during the period of the “Twelfth Five-Year Plan” focuses on the following issues:

- 1) *The proportion of agency workers in all TexCo enterprises should be reduced to below 15%. At the same time, firm-level ACFTUs should grant the remaining agency workers ACFTU membership. In addition, the enterprises should set up incentive mechanisms for enabling agency workers get promoted or transferred into the formal workforce. The ACFTUs are also required to incorporate agency worker representatives in the CWS.*
- 2) *The enterprises have the responsibility of negotiating with the labour agency companies over the issue of agency workers' annual vacations.*
- 3) *The amounts in the severance packages for laid-off workers (for the reasons of workforce replacement, such as shut down or plant removal) must be more than Shanghai's local standard average monthly wage in the past year.*

There are other ACFTU traditional political responsibilities regarding guaranteeing workers' welfare addressed in the contract that are also presented in the form of political guidelines, such as increasing the amount of the aid package for "needy workers" as well as launching charity campaigns for those workers. In general, in spite of the well-established state-led union system throughout the entire TexCo group, the top level ACFTU does not have substantial influence on key issues, such as wage levels and working hours. In fact, there is no specification of hourly and monthly wages in the group's top-level collective contract produced by ACFTU and headquarters management. Instead, this contract states that there is some flexibility for work units to decide upon their own wage levels according to their level of profitability. As a result of the downsizing and redundancy, the wage system in TexCo has developed into being highly differentiated across the various types of production and services. The top-level ACFTU at headquarters, having been effectively engaged in representing production workers' voices in relation to standardising wages during the early period of SOE reform, have now become incapable of representing the new TexCo workforce, in general. Also, the union has been unable to make any changes to the performance-based bonus system.

Unlike its weak position within TexCo's collective consultation system, the union is formidable as a political guidelines enforcer. During the period of the fieldwork

visit, it was actively operating a project in relation to collectively studying the CCP's recent anti-corruption guidelines. This was particularly addressed in a series of "cadre education" sessions, where in a somewhat indoctrinating manner, it was held that workers "should be given full freedom in fighting against corrupted SOE leading officials". The CCP's anti-corruption movement is at the top of the agenda of the Xi administration. As part of this political movement covering all aspects of life across the whole country, anti-corruption in the state sector is specified as an ongoing struggle aimed at "clearing up corrupted SOE officials who feather their own nest by sacrificing people and workers' profits and wellbeing"⁴¹. Whilst it is difficult to know to what degree the union's influence in enforcing CCP discipline has led to regulation of TexCo officials' behaviour, the trade union is still a trusted listener for workers wishing to complain about the misconduct of managers. Their concerns are reported to managing cadre officials and the CCP committee through the channel of inner-party discussion.

Despite of the somewhat unfixed nature of the top-level collective contract, the TexCo headquarters still sets specific rules that require the TexCo Holding Corporation and ACFTU to sign *the special contract on wages*. There were a few instances of substantial wage bargaining taking place in the form of collective consultation before 2008. Complying with the nation-level campaign of promoting ACFTU-led wage bargaining, all TexCo ACFTUs have been required to carry out yearly bargaining (as part of collective consultation) specifically on wages since 2008. The central ACFTU permits differentiation of agreed standards in relation to wages, whilst also seeking to stipulate common rules on wage bargaining. Given the issue of "equal-pay-for-equal-work" was raised as a political concern by the local CCP in 2008, the contracts signed since then have all highlighted the following aspects regarding the approaches to improving the group's compensation system:

- Any change in wages should "take the market environment and the enterprises' business situation into consideration". Propositions of change from either management or the union side

⁴¹ From studying anti-corruption material.

should refer to the guidance wage levels issued by the local government. In addition, workers and managers should collectively benefit from the profits of enterprises. Any wage reductions will, firstly, be targeted at personnel management rather than other workers.

- Setting a standard on wage increase for all subsidiaries: all workers who were paid at the average level in the past year were to receive a wage increase of 11%. Those who earned more than double the average wage level in the past year could only receive a 5% increase. For the others who were paid just 60% of the average level, the rate of wage increase, in principle, would not be below 16%.
- With the principle of “awarding the capables”, the enterprises should make decisions of wage changes on the grounds of the outcomes of skills tests and qualifications assessment. Individuals who gain official titles of skilled workers can instantly receive a bonus, ranging from 500 to 1000 RMB, depending on the nature of the title.

Unlike the main collective contract, the wage-focused one does not specify the underlying political objective of these rules (dissolving the increasing pressure of labour unrest caused by unregulated use of a temporary workforce). Instead, the contract points out that the collective agreement on wages should be based on two principles: 1) mutual benefit of capital and labour, and 2) that the wage should be distributed according to workers’ capacity, performance and title. Quoted from one of the ACFTU cadres, *“we build channels to enable agency workers get involved in all kinds of party-led ‘appraising and selecting’ activities, so as to create more opportunities for agency workers to be better paid and even get transferred into the formal workforce”*. All types of workers, including agency ones, are included in this merit-based wages system.

6.4.3 HR-oriented management

In contrast to the professional managing hierarchy in ElectriCo, HR-oriented management practices are much looser in TexCo. In spite of the fact that the term “HRM” appears in a wide range of documents, including the guidelines issued by headquarters, there is little evidence that a hierarchical managing system with HR elements is actually functioning throughout the business group. TexCo’s business

corporations have unevenly deployed a system that is outside the cadre managing one, which is aimed at controlling three major aspects: wages, performance assessment and performance-based bonuses. Apart from being used for workforce development, HR-oriented ideas and practices have had a quite limited influence on the key decisions regarding the group's strategic planning, as well as the selection of the managing/administrative personnel. In fact, the old measures in relation to CCP-led personnel management are still sovereign in all aspects, such as promotion, selection of reserved cadres and evaluating leading officials.

Like many other new approaches that SOEs are experimenting with, developing "HRM" into a "modern personnel managing system" is regarded as part of TexCo's long-term project of business transition, as aforementioned, from a corporatised state-owned group comprising textile producers to a multi-national corporation specialising in "high-tech products and fashion design". For this reason, TexCo's fashion industry related OBMs, the group's "future businesses", have been given priority in terms of deploying HR-oriented management. Specifically, the Business Corporation C, which also includes some of the TexCo's old garment brands, was chosen to be the piloting unit of "HRM". The present HR professionals who work in the "head office", its subordinating "limited company" to be specific, have all been promoted from this particular business corporation, and now work for the cadre officials who are in charge of supervising the group's high-end fibre and fashion business.

Decisions on workforce planning are highly centralised by this personnel office at headquarters. It has issued guidelines to all TexCo units about setting targets for controlling and selecting workers. All branch personnel offices in the TexCo business corporations are supposed to align with such a framework, which has the purpose of overall workforce shaping. Meanwhile, the business corporations have been given autonomy in certain managing practices for meeting their own business needs, such as payroll and benefit policies. Lacking HRM professionals, the "HR" departments in TexCo subsidiaries are largely administrative units, rather than a new form of strategic managing body. Thus it would appear that installation of HR-oriented techniques in these managing bodies has not

fundamentally changed these units' ways of controlling labour management. The ongoing agenda of labour management in TexCo's transformation in relation to redeploying off-post workers and replacing an inefficient workforce, is still the top priority of these personnel managing units. With the exception of the leading cadres at headquarters, none of managers or HR-related cadres in TexCo's business corporations or their subsidiaries is involved in strategic decision making.

How is TexCo's "HRM" influential? An example from the experience of "Competitiveness Model" building

TexCo's "HRM" department at headquarters is led by three personnel managing cadres, who at the same time are professionally trained managers. Being responsible training and performance assessment, workforce planning and old workforce redeployment, they represent the voices of personnel management for a set of decision making occasions, where both professional managers and party cadres are involved.

Inside the "HR department" at head office, there is another personnel managing unit called the "HRM office". Before TexCo's restructuring in 2004, it used to be the personnel managing office running basic technical functions, such as issuing payrolls and benefits. Nowadays, in accordance with the group leadership's idea of integrating labour managing forces into one single supreme body at headquarters, the office has been designed for management and supervision by the three, aforementioned, main cadre leaders. However, the real relation between these three and the office is rather distant in that they are not really intensively involved in the office's day-to-day work. Instead, their work is largely about communicating between the HQ Party committee and the managers who have HR professional backgrounds, with the aim being to devise new labour management plans for their own areas of responsibility in the form of party-oriented guidelines. In the mean time, the "HR" office has continued to play the identical role it had before 2004. The cadres in the HR office, in addition to workforce development,

have been given the power to harmonise the workforce and negotiate with it in an informal way.

In spite of it mainly performing a consultation role, the HRM unit's voice is still taken seriously into consideration by the three leading cadres. On occasion, it has even been given full authority in relation to decision making and implementation on such matters as designing a new index for evaluating office workers' performance. As quoted by one of the leading cadres in relation to their role regarding the group's piloting unit, one task was to "instill HR ideas and values" in the group's party-led decision making process. Despite this, the extent of the HRM unit's actual involvement in key decisions is still governed by leading cadres' rather arbitrary manner of injecting HR elements into various labour managing aspects. To start with, they were merely asked to design a framework for recruiting highly skilled workers who would be assigned to work in the group's newly formed high-end fibre corporation. Subsequently, they were tasked with building a performance assessment system for all the business corporations. In addition, during the "Twelfth Five-Year Plan", one assigned task by the leading cadres is to design a "competence model" to be used for the purpose of selecting capable managers and cadre leaders for forming TexCo's new leadership in its emerging hi-tech and fashion-related businesses (it is also the entry point of my inquiry in TexCo's HRM unit).

As an observing participant in this research (I was given the title of "temporary post", similar to being an "external advisor" in ElectriCo), I discovered that TexCo's HRM unit at headquarter's role under the guidance of the leading cadres have been influencing different levels of management across the corporation in the following somewhat limited ways.

The HRM unit has directly engaged with the group's agenda of providing skills training to managers and cadre leaders since the very first day of its formation. Working with the Communist Youth League (CYL) branch committees in the newly formed corporations, the HRM unit was initially concentrating on arranging a series of skills training courses for young cadre leaders, who were newly transferred to the managing posts in the newly formed Business Corporation C.

The contents of those courses ranged from basic IT skills training to knowledge relating to the high-end textile industry and management science. At first, the majority of the HRM unit's staff were also CYL cadre officials, just having finished their internship in the personnel offices of their original working units and then having been transferred to the piloting HRM unit.

"They were carefully selected vanguard cadres who have excellent traits in both political quality and professional knowledge. HRM is a project concerning our group's future - such a task should be handed to young capable talents."⁴²

Comprising three CYL cadre leaders and six staff members, who had working experience in both CYL administration and personnel management in TexCo's garment enterprises, the HRM unit took charge of designing and arranging all training sessions for the newly formed Business Corporation C during its first three years. *"They were like our course organisers. We had plenty of courses, taught by external experts on a variety of things"*⁴³. Given Business Corporation C's new role as TexCo's OBM in the consumer-oriented market, the HRM unit was encouraged to arrange more training sessions related to brand strategy and brand marketing. Moreover, the head of the unit was told that they were shouldering the responsibility of shifting managers' old mentality of expecting financial help from headquarters.

"Back then, many managers (in Business Corporation C) were newly transferred from those old prestigious (having famous brands in pre-reform age) enterprises. Lots of them didn't truly understand the reason behind such a move of merging and restructuring..... some of them strongly believed that headquarters was merely integrating assets to stop further losses. As long as they sat in a new secured post and saw no more bleeding from their units' revenue, they didn't think they needed to make any changes..... you see, the problems lay with their ideas. That's what we

⁴² Interview with LM cadre A

⁴³ Interview with Mr. LF, the manager of the industrial corporation C

aimed to change – building a new mentality of strategic managing with HR means.”

Designing a performance assessment framework was another task that the newly formed HRM unit was initially given. With the hope of universally measuring workers’ performance throughout the entire TexCo hierarchy, regardless of whether the workers were contract-based or had core (or “formal”) status, the labour managing cadre leaders gave the HRM unit full authority to design and apply the assessing framework they had worked out for Business Corporation C. As with other similar frameworks widely applied among capitalist corporations, the TexCo version of performance assessment includes a set of indices as well as measuring means, such as questionnaires, observation reports and peer-evaluating worksheets. They were required to match with “universally applied rules” in order to make sure that workers would be assessed only according to their performance and actual output⁴⁴.

However, designing a framework that excludes non-performance related factors from the assessing standards is one thing, putting such a framework into effect is another matter. According to the HRM unit’s manager, headquarters had never actually seriously considered treating the new assessment framework as the group’s only standard in making decisions regarding personnel arrangements.

*“...I would say (in answering my question on the range and effect of the implementation of the personnel assessment framework) the contract-based workers who were recruited after 2004 are fully subject to the personnel assessment framework. The changes of bonus and promotion are made according to the ‘more pay for more work’ principle. As for the rest (TexCo’s formal workforce), there are of course more factors taken into consideration, because of our complex history of transition - we try our best to balance fairness and flexibility.”*⁴⁵

⁴⁴ Interview with HRM manager A

⁴⁵ Interview with LM cadre B

During my visit to one of the subsidiary enterprises of Business Corporation C (as part of the “competency model” design, I was involved, as an observer, in a team that was dispatched to the subsidiary workplaces to learn about the managers’ jobs and achievements), but the manager I questioned was confused regarding my inquiry about the performance records of their formal workforce. According to him, the assessment was just about evaluating the enterprise’s agency workers’ performance and not the permanent members of staff. Whilst he did report that they did have the core workers’ performance records, these files were confidential and could not be reviewed for the current research.

6.5 Summary of the case study

The TexCo group is the result of years of “grasping bigs, and letting smalls go” policy in Shanghai’s state textile industry. From a state-run industry that had over 500,000 permanently employed state-workers to the present business group of only 20,000 contracted employees, Shanghai’s state-owned textile industry has undergone a radically downsizing course driven by the CCP’s local development goals. Today’s TexCo group integrates the most valued assets that were once governed by the state-run bureau of the textile industry. Since the radical downsizing reform in early 1990s, TexCo now has completely quit from massive-scaled yarn manufacturing, Shanghai’s most important state-run production in the pre-reform era. The group, today, has a diverse line-up of businesses, ranging from traditional apparel and fibre products manufacturing to fashion designing. The trading sector has been TexCo’s powerhouse of revenue since the business group’s foundation, while the emerging “future sectors”, at present, remain small in terms of size as well as profitability.

As an entity that involves promoting the group’s business interests as well as those of the local CCP in relation to maintaining the state-owned industry, the TexCo headquarters has deployed hybrid forms of labour managing approaches for rebuilding a state workforce. Since the foundation of the current group, all TexCo subsidiaries have been given full autonomy in relation to marketing and sales, but the nominations for key management posts are largely collective decisions made

in accordance with the CCP's internal personnel politics. In terms of labour relations, management and firm-level ACFTUs are required to organise consultation in order to make collective agreements on the rules regarding working conditions, such as wages, working hours and bonuses. Additionally, the managing cadres and the group's supreme ACFTU official have to sign a collective contract of general provisions for applying to all TexCo units, by which managers and ACFTU officials at all levels of the group receive the same specific rules and somewhat vague political directions. Given there is lack of rules or protocol on organising collective consultation at the headquarters level, the process of collective consultation is predominantly driven by party politics. ACFTUs are not just enforcers of labour laws and provisions, for they also avidly cooperate with other party apparatuses in relation to various types of political campaigns aimed at strengthening the business oriented skills of all types of workers without damaging the harmony within the overall TexCo workforce.

With regard to workforce reconfiguration, TexCo has a preference for training its own workers and managing personnel for meeting the emerging needs of the group's new market strategy. As aforementioned, the original unskilled state workforce was largely replaced through multiple party-controlled channels, which included lay-offs, early retirement and "long-term vacations". The vacancies left by such coercive measures were quickly filled with a temporary workforce, especially agency workers. In recent years, in the wake of the state's project of regulating temporary labour, the proportion of agency workers has reportedly been constantly falling since the beginning of "the Twelfth Five-Year Plan". There have been some measures to regulate and accommodate agency workers, such as offering ACFTU membership and raising wages. At the same time, the group has issued guidelines aimed at limiting agency workers to the unskilled jobs, which enables management to replace them easily.

HRM staff appear to have limited influence in the rule making process. Whilst headquarters encourages subsidiary corporations to deploy HR-oriented practices for training and selecting capable talent, professional HRM is only treated as an experimental project deployed in the group's rising fashion business.

The HR-oriented managers are often given consulting roles in the CCP-driven process of cadre selecting, but their opinions on regulating talent selection have barely been taken into serious consideration by the leading cadres. In contrast to ElectriCo, HRM departments do not have a voice in in terms of making regulations for the core/periphery boundary of the workforce.

Chapter 7 Discussions and theoretical reflections

In the previous chapters, I have mapped out the labour managing regime of both local state-owned business groups with a comparative format of a case study template. In this chapter, I discuss the dynamic formation of this complex system in Shanghai's local state sector. Based on the findings from the two case studies, I argue that the different landscapes of labour management displayed in the templates are the outcomes of the firm-level cadres' negotiation on the boundary-drawing strategy in relation to the overall workforce. To respond to the emerging market pressure in the post-crisis era and the state's inhibiting stance regarding the temporary workforce in the state sector, the CCP cadres had to ensure simultaneously the flexibility of workforce as business interest and harmony among workers as their political responsibility. The first section of this chapter discusses the internal political process of the making of the two groups' labour relations configuration - demonstrating how the state guidelines regarding agency labour regulations were operated at firm-level and how eventually the boundaries were drawn between the two groups' formal workers and agency workers. The second section focuses on how local state-owned groups have drawn invisible boundaries among formal contract workers. Here, the discussion is centred on the two groups' avid attempts at setting up a merit-based promoting and co-opting system for transmitting fresh blood into the groups' line-up of reserved cadres.

Revealing local state-owned groups inside labour politics, the discussion then focuses on the questions about the diversity of the labour managing methods within the local state sector. What can be generalised from both cases? Is there commonality in local SOEs' labour managing ways? Or, what does "being local" mean to the reconfiguring process of labour managing regime in those former socialist workplaces? This chapter also focuses on the differentiation found in these two cases. That is, in order to adapt to the new market environment of the respective industrial sectors, both state-owned business groups have evolved their distinctive ways of managing the labour force. To what extent are the forming of those new managing approaches determined by the different natures of the industrial sectors? How is the emerging market environment influenced by

Shanghai's local political agenda? Does such differentiation signify collision between interest-based groups, or the path of the CCP-led labour managing system in China's local state sector? A theory regarding the CCP's agenda of pioneering and implementing a merit-based labour managing system in SOEs is also discussed in the later part of this chapter.

This chapter is organised as follows. In the section 6.1, I first provide a summary of the labour regimes of the two SOBGs and then focus on discussing the top CCP apparatuses' strategic choice in handling both groups' diversified and segmented workforces. Next, the discussion is extended to the types of "flexible firms" that the SOBGs aim to become in responding to such a complex configuration of the workforce. In subsection 6.1.4, I contend that the CCP-led labour regimes of these two SOBGs exhibit a "hierarchy-network" duality nature and explain that such a feature derives from the party apparatuses' versatile roles in handling various aspects of labour management. The following discussion regarding the group-based CCP's different roles in multiple labour management matter is developed to respond to this duality conception. In the next two sections, 6.2 and 6.3, I summarise and explain four types of actors the group-based CCP is playing within the SOBGs. Specifically, the party exercises its political control hierarchically, through having group-based party apparatuses play the roles of "managers" and "enforcers". Whilst considering the SOBGs as networks of organisations, thus functioning as "facilitator" and "regulator" through distant political control.

In section 6.2, the discussion centres on the different approaches that the CCP apparatuses in the two groups have taken in handling the party's political project of labour relations reshaping. Starting from considering the differentiated dynamic of management-union relationship at the top level of the groups, I discuss the group-based CCP's roles as "enforcer" and "regulator" of the party-state's guidelines. Party cadres with different professional backgrounds work together to enforce the party's decree of downsizing the temporary workforce and are seeking alternative approaches (or "innovative" approaches according to the CCP's official terminology) to union organising, such that it can retain political control over non-state workplaces as a "regulator" at a distance, thereby delegating day to day IR

matters to the grass-roots cadres. In section 6.3, I focus on discussing the CCP's managerial duties in SOBGs. Regarding the diversified forms of managerial control in the two groups, I conceptualise the CCP's roles in relation to the shaping of HR-oriented management as "manager" and "facilitator". Despite being varied in terms of the degree of managerial control and core/periphery workforce composition, both SOBGs simultaneously seek functional and numerical flexibility in their staffing strategies. The discussion is further extended to scrutinise the party's attempt of forming an internal merit-oriented co-opting mechanism for selecting the "core workforce". Then, I contend that the CCP's unique dynamic of meritocracy plays a key role in shaping the authoritarian unitarism in the focal SOBGs.

7.1 Local SOBGs - the party's men, or the business men, and their mixed interests in managing labour

7.1.1 Summary of the labour regimes in the two groups

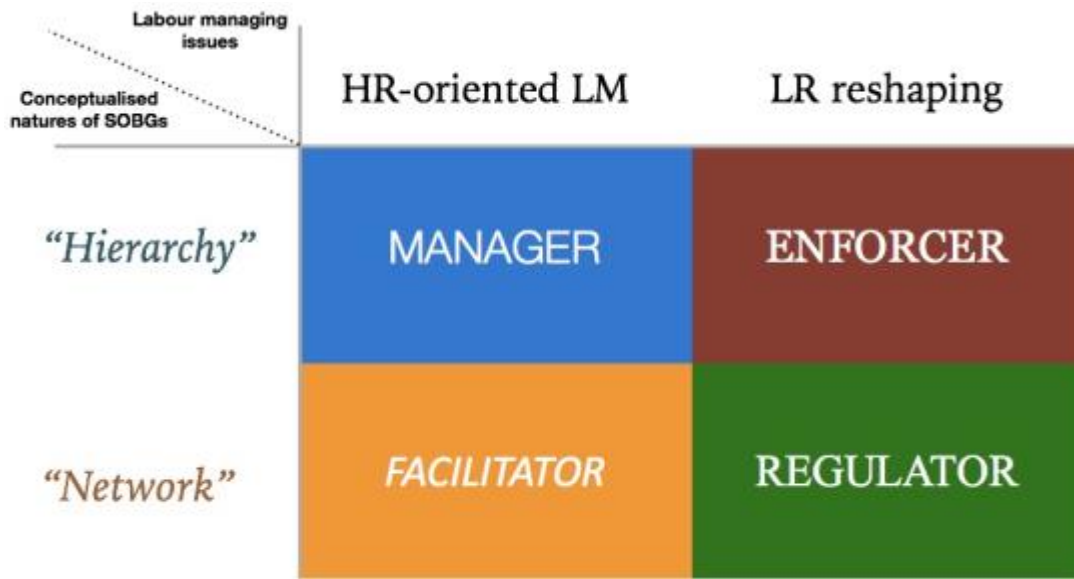
The case studies have confirmed the assumption about the nature of Shanghai's local SOBGs as the unit of analysis - they are the political consequences of the Chinese party-state's long-lasting project of state sector transformation. The CCP's continual dominance over labour management has resulted in a complex ecology of a local state sector, in which new organisations and institutions constantly emerge along with the CCP's ever-changing politics of labour. The findings of the case studies challenge two conventional conceptions on Chinese SOEs' labour managing system, namely: 1) There is a universal pattern of labour management across all institutions in the Chinese state sector; 2) the transitioning SOEs are experiencing ongoing evolution of their own patterns of labour management in response to the respective contingent market settings.

As the two case studies have unveiled, both ElectriCo and TexCo have experienced three stages of transition in shaping the present form of labour regime. Firstly, the dismantling of the state-run industry marks the dissolving of the party state's social contract of "the three irons". In the wake of the corporatising transition of the original administrative bureaus, the power for managing the labour force was

decentralised to the individual enterprises and plants. Secondly, control over the labour management of state-owned industries was recentralised as a result of the forming of business groups. Formed through the party's political arrangement, the groups are expected simultaneously to undertake the quest of profitability and the responsibility of maintaining labour harmony. Thirdly, as part of the party state's plan of "deepening SOE reform", the groups were asked to accomplish twofold political tasks regarding labour management simultaneously: regulating a temporary workforce in all affiliating entities, and forging a "talented", skilled workforce as a response to the local state sector's "Twelfth Five-Year Plan".

Over the course of this evolving process, it can be seen that the party has consistently played sovereign roles in reshaping the labour managing institutions. On the one hand, SOBGs' headquarters, the groups' supreme entity for making political decisions, have played the role of conveying the directives and guidelines regarding SOE reform from the upper-level of the party apparatuses. The TexCo case has also provided evidence that the headquarters' political power stretches beyond the business group, functioning as a regulating body that sets rules for the city's other types of textile production units. On the other hand, there are top-down, organised form of managing measures taken by the top-level party apparatuses, aiming to reshape the groups' workplaces into being HR-oriented regimes with the goal of profitability. Shedding light on how this complex arrangement has come into place at TexCo will help explain the variation of labour management patterns when compared to ElectriCo.

Figure 7-1 Conceptualisation of group-level CCP's flexible roles on LM matters



7.1.2 Within-group segmentation of the workforce

As the findings from the case studies have suggested, almost all kinds of labour managing practices adopted in the two groups derive from the group headquarters' top-down decisions, which appear as various forms of control. To understand the headquarters' multiple roles in implementing labour management strategy. It is essential to consider the internal job disparity within Shanghai's local SOBGs.

As has been mentioned above, staff formations are significantly varied among the groups' subordinating organisations, depending on ownership type and the level of the hierarchical structure. According to ElectriCo and TexCo's early grouping schemes in early 2000s, organisations in both groups were given differentiated goals of workforce reconfiguration. In general, enterprise entities were distinctively stratified into three layers in terms of staff formulation:

a) Headquarters level - ElectriCo defines its headquarters as the "strategic centre" of the group in its HRM building scheme. Given the headquarters' assigned role of supreme managing entity, its personnel are all recruited through the group's internal labour market or by direct promotion from other subordinating

organisations. Like the senior cadres who have worked for ElectriCo for years, the leading managers at this level all receive permanent job security. In addition, they are given a large number of opportunities to rotate their jobs across branches. Meanwhile in TexCo, the headquarters is mainly staffed with managing cadres who are promoted through the political channel. Given TexCo's lack of an organised HR-oriented approach, this means that there are fewer market-based rotating opportunities available, but in terms of job security and political career path there is no significant difference to their counterparts in ElectriCo.

b) Business corporations - The corporations at this level, or "tier 2 units", are the groups' profit and strategical centres, where workers with various types of traits and skill work together. Seemingly open to the jobs market given their assigned roles as self-financing entities, however, these corporations were found to have fairly limited access to the external jobs market. Instead, employees are largely recruited through internal channels of selection and nomination. In addition, employees with various security conditions and bonus schemes are blended unevenly across these corporations.

According to ElectriCo's definition of its all-group HRM scheme, those business corporations are "the pivots of management connecting the headquarters with grass-root production units". The managers at this level are expected to interpret macroscopic decisions made by the headquarters into practical guidelines of managing measures. In order to meet with the group's requirement on human resource related to market expansion, the business corporations are expected to absorb "talents", who are not only professionally experienced, but also capable of party matters. Consequently, these business corporations offer a considerable amount of opportunities for job rotation and internal promotion for professional managers as well as managing cadres selected from all levels of the group hierarchy. Contrasting with ElectriCo business corporations' heavily professional-concentrated formation of employees, there are only a handful of "tier 2" entities in TexCo offering such high flexibility of cross-organisational training and skill development for managing personnel. As a result, the managing and technological personnel, who are part of the group's long-term, flexible wage scheme, are only

placed in TexCo's few "future businesses". The rest of the business corporations are still staffed with senior cadre personnel, who have the right amount of management knowledge and experience.

Apart from these internally recruited employees, there are a few labour market employees who are externally recruited by both groups. There is a large number of graduate recruits who are employed through the group's annual campus recruiting scheme and they are involved in the group's "talent" project, which has the purpose of selecting a new cohort of a long-term, skilled workforce. The boundary between these graduate recruits and the long-term employees is not distinct in that their works are largely organised with common goals and processes. Meanwhile in TexCo, such a form of HR-controlled work flexibility is only deployed in the group's fashion and hi-tech centred business groups, while the rest only offer flexibility on administrative position nominations across organisations.

c) Production units - The organisations at this level ("tier 3" units) are the main employers in which TexCo's short-term, contingent employees are placed. The managerial or supervisory positions are predominantly taken by the long-term staff, who are referred to as the ones who have entered "bianzhi", sometimes called "leaders". The number of this "leader" minority is dependent on the various business conditions of each enterprise. For instance, the entities pursuing short-term profits, like TexCo's trading companies, are generally staffed with fewer long-term personnel, whereas the entities that are expected to become future powerhouses of state industrial outputs are full of long-term employees working on a wide range of jobs. For ElectriCo's graduate recruits, working in those non-managerial positions are usually parts of their assigned quests to gain experience from the "grass-roots" production centres.

With regards to the non-managerial majorities at this level, jobs are highly open to the external labour market. As the groups' production centres or "tier 3" units, these workplaces have substantial need for an external labour force in order to fill the workforce gap left by the enduring SOE reform. Both ElectriCo and TexCo have been recruiting agency workers as a flexible solution to minimising labour cost.

Before the state released new legislation discouraging temporary employment, some “tier 3” enterprises even used to reportedly have agency workers as much as 60% of the total. Even though the local SOBGs in Shanghai have taken actions to control the number of agency workers since the new legislation in 2007, “labour dispatching” is still a preferred approach in recruiting production-line workers. As for the other contingent workers who are externally recruited, they are often the replenished cohort assigned to fill the vacancies left by laid-off skilled technological personnel. In general, they are treated as equal to the groups’ long-term workforce in terms of welfare, but it varies greatly regarding other aspects across the different workplaces in relation to opportunities of promotion, skills development and access to bonus schemes.

7.1.3 The new form of flexible firms in the local state sector

The within-organisational inquiries of the two case studies have revealed that ElectriCo and TexCo, both simultaneously, subject to political pressure from the national and local levels, have been carrying out two major initiatives in regards to workforce reconfiguration. Firstly, as state-owned entities have been forced to eliminate excessive numbers of workers and inefficient production, the groups have avidly adopted the flexible strategies of deploying temporary and contingent workforces. These strategies are the outcomes of the group headquarters’ ardent attempts at transforming the original state industry via the creation of networks among various forms of organisation, including outsourcing, insourcing, subcontracting as well as joint ventures and partnerships. The formation of the current group hierarchy (or, in the internal political terminology, “*Bu-Ju*”) is in line with the CCP’s dual agenda of reducing labour costs as well as business expansion. Secondly, the group headquarters, representing each group’s nexus of mixed interests, have played a sovereign role in making their strategy regarding human resources, even though the leading cadres often have not engaged in direct control in branches and affiliating business entities. The top-level managing cadres have a strong willingness to enhance workers’ commitment by providing various training and promoting channels, in order to forge a core workforce with high skill and high job security.

These two images reflect these state-owned business groups' twofold needs for different forms of flexibility in terms of labour managing strategy. On the one hand, market challenges from private and foreign-owned counterparts have prompted the state sector to dissolve the original socialist contract that guaranteed political prestige as well as permanent security to workers. As a result, these groups have had to seek new staffing methods to replenish the shortage created by the massive laying-off and workforce re-settlement during the period of radical SOE reform. Thanks to the "Grasping Big" policy, resulting in the creation of local state-owned business groups, the formation of organisational networks has enabled managers from different forms of workplaces to configure flexible staffing strategies that suit their own needs. Contingent and temporary workers who are given limited or no job security have turned out to be very much favoured in all kinds of affiliated entities. On the other hand, in response to both local and nation-wide political pressure to strengthen "national champions", the top managing cadres of these groups have been continually seeking new solutions to forging the groups' new core workforces. The ideas and practices of HRM have been remarkably popular among the managing cadres. For them, the notion of creating high-performance work organisations by providing workers more opportunities for training and involvement brings new hope of strengthening the SOEs' performance without damaging the existing unitary form of rule-making regarding jobs. To varying degrees, these groups have already deployed HR-oriented managing practices with the hope of creating a kind of flexibility that enables high-skilled, regular workers to accomplish various types of tasks.

In all, these groups' labour managing systems appear to be of a dualist nature - the "hierarchy" that, in general, seeks to implement long-term, high-performance strategy and the "network" that involves pursuing loose reorganisation state industry with pragmatic and flexible practices. To understand the ways in which the different types of labour utilising flexibility are balanced or traded off within these organisations, firstly, it is necessary to scrutinise the very nature of local state-owned business groups, as the units of analysis.

7.2 “Enforcer” and “Regulator”: the party’s role in the reshaping of employment relations

7.2.1 The state’s strategic tasks for the state sector

Since the enactment of the 1994 Labour Law, collective contract and collective consultation have largely been ineffective in making progress towards promoting confrontational bargaining between management and the labour force. The current institutional setting of collective contract and collective consultation resulted from two party-led campaigns in early 2000s and 2007-2008, respectively. Those campaigns aimed to tackle with the turbulence of labour relations left by the SOE reform⁴⁶ (“grasping big, letting smalls go” in the early 2000s) and the further wave of “deepening SOE restructuring”⁴⁷ (brought about by the global financial crisis in 2008). The fear of uncontrollable labour unrest and press exposure of the increasing number of labour disputes have always been the CCP’s top concerns, as they want to minimise direct political intervention.

The empirical inquiry of this research happened to take place at the point when the local CCP apparatuses embarked on launching a regional-wide campaign in response to the “Twelfth Five-Year plan”. Being subject to subsidiary plans issued by two local administrative entities, the Ministry of Human Resources and Social Security (MHRSS) and SASAC, both ElectriCo and TexCo were given the dual tasks of upgrading the capacity of overall workforce as well as maintaining harmony and stability among workers. In the Five-Year plan guidelines issued by MHRSS, the urgency of further expanding coverage of the collective contract and collective consultation system was addressed as a premise for “solidifying the rear area of SOEs on the course of deepening the reform”. In the same guidelines, the central CCP’s demands to the local authorities were also delivered to the SOEs - a series of

⁴⁶ The campaign came along with the 2004 amendment of “Collective Contract Provisions”.

⁴⁷ In 2007, the national ACFTU urged all branches across the nation to seek innovative means for controlling the reported number of labour unrest. Regional bargaining and trade-wise bargaining were particularly highlighted as ACFTUs’ main approaches to be used in the non-state sector during the campaign. They were also widely implemented in those workplaces affiliated to the state-owned business groups. This is discussed in the later part of this chapter.

clear tasks finalising the expanding coverage of the collective consultation system: by 2013, 80% of SOEs in Shanghai's local state sector should have finalised setting up such a system.

Promoting collective consultation and further expanding coverage of the collective contract were addressed as one of the most urgent tasks to accomplish in MHRSS's "Twelfth Five-Year plan" guideline. From 2010 to 2011, the initial stage of the Twelfth Five-Year plan, MHRSS, ACFTU and CAE jointly organised a negotiating mechanism "the Joint Assembly of Labour Relations" to discuss about the issue of harmonising labour relations. The following strategic decisions regarding the imposition of collective consultation on enterprises at the local level were collectively made at the joint meeting of this tripartite mechanism: 1) launch a series of political movements across the nation for strengthening cadres' consciousness on the necessity and urgency of such policies; 2) set clear quantified tasks on the coverage rate of signed collective contracts and collective consultation to local cadres responsible for state economy and labour affairs.⁴⁸ All three parties delivered fairly demanding decrees to their subordinating units at the local level. In doing so, the Joint Assembly represented the central CCP as whole, by setting the tone of China's labour relations reform over the next five year span.

The guidelines issued to Shanghai's local state sector highlighted two aspects. Firstly, like all non-state-owned economic entities, SOEs were also mandated to expand coverage of collective contracts and collective consultation to their temporary labour force. Unlike her sister provinces that play role of the nation's powerhouses of manufacturing industry, Shanghai has relatively low level of use of a temporary workforce due to the fact that the state-owned manufacturing sector shrank significantly during the years of SOE reform. However, the vacancies left by the SOEs' lay-offs and redeployment in the remaining manufacturing-related businesses were quickly replenished by the personnel supplies provided by labour agency companies. By 2010, the average proportion of agency workers

⁴⁸ Three guideline papers

in Shanghai's local state sector was around 20%. In the wake of the state sector's major strategic adjustment in promoting "advanced manufacturing industries" (another important Five-Year plan agenda), dealing with the agency labour force became an urgent mission for firm-level CCP apparatuses. On the one hand, the quick shift from the state workforce to the agency workforce was often justified as being an essential move to preserve those enterprises' manufacturing industries. Nowadays there is also purportedly "inertia" among managers who want to keep such a labour strategy with the purpose of controlling cost pressures. On the other hand, both enterprise cadres and local administrative cadres have, on various occasions, conveyed their anticipation of getting rid of SOEs' dependence on labour dispatching and enter the high added-value market with high skilled permanent staff.

The local MHRSS's 2011 guideline regulating labour dispatching has stipulated four basic principles for SOEs, with the expectation that any new move regarding the issue of labour dispatching should be in line with the consensus made by the tripartite joint meeting at central level as well as with the 2007 new labour law. Also, the guideline emphasised three aspects that the SOE cadres should focus on: 1) defining the "*temporary*", "*auxiliary*" and "*replaceable*" working posts that can be legitimately replenished with agency workers; 2) letting the agency workers receive the same payment as the others for the same work (Equal-Pay-For-Equal-Work); and 3) enabling agency workers "democratically" to participate in management. These key points were not only addressed in guideline papers that were issued to both local MHRSS and various levels of trade unions, for they were also regarded as the priorities for the managing cadres in enterprises.

Secondly, the guidelines addressed the necessity and urgency of directing SOEs' missions of redeploying redundant workforces into a codified framework by continually promoting collective consultation in a top-down way. In addition, SOEs had to resort to dissolving disputes on the ground with written-down regulations, rather than using ad hoc informal procedures that took up much time. To be more specific, enterprise cadres were given a few principles of dealing with labour disputes under the new normalities of labour contract law: preventing media

exposure; strictly preventing from workers' organised petitioning to the central authorities located in the capital; and ensuring harmony in the workplace through the form of "rule by law". If redeployed workers were at odds with the SOEs' arrangements, then the personnel managing cadres had to act based on collective contracts signed by the management and union.

In sum, further extending the collective consultation system was seen as the solution to tackling the SOEs' problem of an excessive agency workforce for CCP. Moreover, the grass-root CCPs in Shanghai were also assigned tasks aimed at increasing the coverage of such a system.

7.2.2 Strong union, weak union: ACFTUs' uneven significance in the party's labour politics

How did the local SOBGs set out to implement those schemes developed by the higher authorities? As has been found in the case study research, the CCP at the SOBGs have been playing double roles in implementing labour relations restructuring. For reducing temporary employment, both ElectriCo and TexCo's headquarters gave direct instructions to the subordinating party apparatuses, which mandated them to reach the new standard of the temporary employment limit. Simultaneously, the groups were encouraged to develop "innovative forms" of union organising as a semi-administrative unit of the CCP's governance in addition to the local-level LR regulations. It is notable that as a de facto administrative entity rather than independent interest-based union, the group-based ACFTUs are involved in these party-led governance practices. The case studies have also revealed that the two groups appear to have different dynamic of union-management relationship, which has been paramount in determining what sort of contingent pattern of party governance in relation to LR restructuring the two groups have developed.

Overall, the headquarters ACFTUs of the two cases are quite similar, with both having been Shanghai's leading unions in the state-owned electronic engineering and textile sectors, respectively. Once the local CCP proceeded to "grasp bigs" among local SOEs, the two local ACFTU apparatuses were incorporated into the

emerging local state-owned businesses with the de facto new roles of leading firm-level unions in ElectriCo and TexCo. Even though they have continued functioning as the ACFTU's subordinating bodies that ideologically represent all workers' voices in those two sectors in Shanghai, their political importance has been gradually neutralised, in particular, because their registered membership fell continuously throughout the years of SOE reform. Despite this growing powerlessness, the ACFTU and its subordinates have been given increasing autonomy and manoeuvring room in bargaining in recent years, in order to achieve the CCP's post-crisis agenda of defusing potential social unrest caused by labour disputes.

The literature review has already covered the patterns of union organising in the non-state sector in the wake of the legislation of the labour contract law. At face value, the state sector would appear in prior work to have been governed through the "state-led pattern", i.e. a vertically deployed administrative system with full ACFTU control. With strong ACFTU presence at all levels throughout the entire business groups, ElectriCo and TexCo have been able to execute labour relations related guidelines and decrees more efficiently than their counterparts in the non-state sector. However, the power relations between the unions and the two groups' top-level management are quite different. ElectriCo's union mainly plays a supportive and consultative role at the headquarters level, while TexCo's is authoritative, despite it not actively engaging in headquarters cadres' collective decisions on labour management arrangements.

Evidence from the case studies suggests that such different relations with management have been largely shaped by their distinctive restructuring trajectories. Both ElectriCo and TexCo's unions have the dual roles of being the two business groups' ACFTU subordinates at firm level and also the industry-based ACFTUs in the Shanghai region. As a result, the two unions' actual range of responsibility and coverage of workers have been largely determined by the degree of "letting-go" in the two state-owned sector. For any enterprise that was not incorporated into the newly built business groups, these ACFTU-led unions still retain their administrative coverage over those "letting smalls go" workforces.

Since the 2004 restructuring has led to a thorough corporatisation of Shanghai's state-owned electronic engineering industry and ElectriCo's union's dual responsibilities as sectoral and regional unions now, ostensibly, overlap. Meanwhile, TexCo's business group's emergence was not accompanied by such a transfer of the workforce from the original SOEs. In fact, by 2010, TexCo workers only accounted for 28% of the total population of textile industry workers in Shanghai. The rest of the workforce worked in the enterprises from non-state sector, which largely used to be "let-go" former SOEs that became joint-ventures. The new ACFTU guidelines in 2008 stated that the TexCo union also had responsibility for representing these "outsider" workers' rights. The guidelines also advised TexCo's union to work with the regional unions located in Shanghai's districts and counties, in order to "explore innovative ways of including non-state workers".

Such a large scale politically assigned workforce has brought an authoritative voice for the TexCo union at the group's headquarters. Especially after 2008, when ACFTU was given more administrative power for harmonising the workforce, when having comprehensive regulations for all Shanghai textile workers was seen as a prime political concern in TexCo headquarters. As a result, the union officials are now able to place demands from the ACFTU on the negotiating table without discussing trading-offs between the group's business interests and their own with inner-party managing colleagues. As can be seen from the case study, new decisions on wages and terms of contract were formalistically made in the Workers' Council (*zhidaihui*), with hardly any organised negotiation between the union and managing cadres. ACFTU directives were quickly transformed to be TexCo's guidelines and all textile businesses in Shanghai were going to follow these. In contrast, ElectriCo's union does not have such political responsibility outside the sphere of the business group's workforce. As the following statement shows "*...new decisions (on wages, working hours and terms of contract) should be made by considering the present conditions of enterprises' performance and situations of industrial sectors and also, the nation's macro-economic background*"⁴⁹,

⁴⁹ Excerpt from ElectriCo handbook of "collective consultation"

ElectriCo union is not as hard-line as their TexCo counterpart, which is able to transcribe the ACFTU directives into action by avoiding trading-off with the managing cadres. Consequently, ElectriCo's union has always sided with the group's market-oriented interests and played a supportive role as a workforce harmoniser.

7.2.3 Enforcing cuts of agency worker numbers through setting political tasks

Apart from the ambiguously expressed guidelines, it has emerged that the CCP set very clear tasks regarding collective consultation coverage and the number of signed collective contracts. These tasks have been integrated in a range of political agendas regarding labour relations, and have been taken seriously by those cadres who have wanted to promote political careers. According to tasks assigned by ACFTU, there should have been 80% of SOEs having signed collective contracts by the end of the Twelfth Five- Year plan and the coverage rate of collective consultation should have grown with an annual rate of 10% during this period. In 2013, the local MHRSS claimed that Shanghai had accomplished the tasks set at the beginning of Twelfth Five-Year plan, and the city aimed to finalise full coverage of collective consultation in all enterprises by 2015. The level of completeness of these quantified tasks appears to be the main indicator for assessing the various CCP apparatuses' performance in reforming labour relations. At the local level, each of Shanghai's districts and counties were downwardly given similar tasks of having to match the percentages required by their municipal superiors. Given the fact that Shanghai's manufacturing industries were highly regionally differentiated due to historical communist planning, the three parties of the local authority - ACFTU, MHRSS and SASAC - separately issued a series of local guidelines to ask for cooperation between enterprises and sub-local authorities for jointly completing the tasks.

Compared to the local cadres, who oversee non-state sector and small/medium-sized businesses, the administrative cadres in the SOEs have been more efficient in accomplishing those tasks, given the nature of the state sector's strong political background. Nonetheless, there are still a few obstacles within the political-

business system of the local SOEs that make cadres' task completion a challenging job. Both Shanghai's local administrative cadres and enterprise cadres are dedicated to the SOEs' market shift and the transformation of business model (another series of political tasks) and the question is whether these political moves of reforming labour relations will be at odds with the local government and SOEs' business-based agenda.

The completion of the party's agency worker cutting scheme was considered an important indicator for assessing individual cadres' merit regarding their political career. However, the tasks appeared to be at odds with the groups' managing cadres' interests, in particular, with regards to the speed required for their implementation and so they complained about the "party's testing trial" for them. According to the ElectriCo union's report on the group's collective consultation in 2013, it was found that there were three aspects of worry and confusion expressed by managers and grass-roots cadres, as follows.

- 1) **The directive asking enterprises to give agency workers "temporary", "auxiliary" and "replaceable" jobs (the Three Types, or "sanxing") is too vague and awkward to operate.** The managers complained that categorising jobs as such is unrealistic per se, since agency workers are extensively blended into the overall workforce. They claimed that some "auxiliary" or "replaceable" jobs are in fact dominated by long-term contracted workers, many of whom were reportedly already in fear of losing their jobs and being replaced by agency workers upon hearing about the upcoming policies. Thus, mutual agreement on "sanxing" was scarcely possible between the management and union, as cadres from both sides feared that it would bring multiple troubles, not only about coping with the overuse of agency workers, for it would also threaten the harmony among formal workers. Additionally, the union cadres resisted the idea that let firm-level unions oversee the deployment of the "Three Types" workers. Instead, as they proposed, it should be the local government or the industry association taking more responsibility in making detailed rules on defining the "Three Types" workers and related protocols for labour force restructuring, so that ACFTU would not be the sole responsible party in potential labour disputes in this new normal of labour politics.

- 2) **It is difficult to make a unitary regulation on wage bargaining across all ElectriCo enterprises, because of their diverse ownership structures and regional distribution.** Some managing cadres in joint ventures reported that their foreign partners were reluctant to cooperate with them in initiating the collective consulting procedures. Others said that the foreign managers explicitly objected to bargaining about wages, on the grounds that wage levels vastly varied among the other provinces and cities where their other branches and sister enterprises are located. The foreign partners also reportedly refused to talk about wage adjustment with the firm-level ACFTU, whose officials had hardly any enforcing power in those joint ventures. The managing cadres also pointed out that it would be difficult to implement a unitary protocol for conducting collective consultation, because of the differentiated ownership structure among ElectriCo's joint ventures.
- 3) **The idea of incorporating agency workers into firm-level unions was widely resisted by both management and the ACFTUs.** Other than the fear of rising labour cost, the main discontent reportedly derived from the fact that the responsibilities of voice representation and bargaining that the ACFTUs would be forced to undertake were supposed to be parts of the dispatching companies' jobs. Managing and union cadres complained that it was unfair and unreasonable to direct the pressure of solving labour-management tension within ElectriCo onto them. They suggested that it should be the unions of those labour dispatching companies, to which agency workers paid their union membership fees, being the party responsible for representing that workforce.

In TexCo, reactions from subsidiaries were not formally recorded in any document as decisions from the leading ACFTU at the headquarters were quickly executed without consulting cadres at subsidiary units⁵⁰, but similar discontented voice about wage consultation could also be heard from managers and personnel managing cadres. Like their counterparts in ElectriCo, ambiguity on the categorising criteria of the "Three Types" of jobs for agency workforce was one of the main reasons for their discontent regarding the tasks of extending collective consultation on wages and contract terms. In relation to the demand that enterprises categorise "auxiliary" and "replaceable" jobs in *zhidaihui*, the group's

⁵⁰ See the details on TexCo union's directives to all ACFTU branches in textile enterprises in Shanghai in next subsection.

personnel managing cadres complained that the new directives would “unintentionally inflict political damage” within TexCo’s workforce:

“It is utterly unrealistic in TexCo – we actually have lots of comrades who have worked for the Textile Bureau for years, and they are still working on jobs that are not related to our current businesses... It is true that agency workers are normally recruited for low-skilled jobs, but we have never created a special category to put them into workplaces. You will find formal workers and agency workers working together in any TexCo workplace. If we categorise jobs by defining some as ‘important’ and others as ‘less important’, I dare to say that it would be an act of creating fractures within the overall workforce...”⁵¹

The unpopularity of the party’s “Three Types” ultimately ended up with managers and grass-root cadres’ inaction. To accomplish the task without any substantial change, the member enterprises resorted to deliberately obfuscating the statistics by counting retired and off-post workers as part of the total number (“*amplifying denominator, and diluting proportion*”, as quoted by PM cadre A at TexCo’s HQ). At the same time, the party-state apparatuses of the local region remained silent on the failed enforcement of the “Three Types” guidelines.

7.2.4 “Innovative” ways of union organising

The SOBGs’ power as an LR regulator over the industries stems from the fact that the group-based ACFTUs are still entitled to represent politically all workers’ rights and voices in the particular industries from the region. However, the group-based ACFTU nowadays is hardly able to directly engage with the LR matters in many member organisations, because these organisations have either emerged with non-state ownership, or have already been driven out of the sphere of the party’s direct control. Inside the groups, new organisations emerged with a wide range of ownership types; while outside, the group-based ACFTUs are now required to take charge of representing the workers in the non-state-owned enterprises that used to have connection with the groups. In light of these new conditions, the group-based ACFTUs have developed new types of union

⁵¹ Interview with Mr. L, the senior TexCo PM cadre

organising approaches, which are different to their conventional ways, in order to undertake their responsibilities of protecting workers' rights at various types of "non-state" workplaces in a flexible manner. These new approaches are expected to enable the group ACFTUs to retain their political influence without taking any direct enforcing measures in member organisations. As the ElectriCo ACFTU leader described at interview, *"We were told to bring new methods into negotiations with the administrative side (managers) and create harmony in all possible ways..... after all, it has to be flexible in such ways otherwise these guidelines would collide with our strategies"*⁵².

In spite of the varied ways of deploying "innovative" union organising practices amongst the two groups, there are two principles that are central for their party apparatuses to follow: 1) workers should be unionised within the framework of collective consultation, and 2) the "Workers' Council" should be the only institution that puts rules into effect, regardless of the ownership type of workplace. In addition to these, the workplaces are encouraged to involve extra institutions or departments, such as supervisory boards and board directors, to act as a supplementing component to those union organising practices. To sum up the "2+X" principals of union organising, workplaces are encouraged to suit themselves regarding their union organising model. Without giving any clear instruction, the "X" part of the plan allows for all kinds of pragmatic measures that facilitate collective agreement being made by all parties. Such a flexible arrangement is usually jointly made by ACFTU, the management in member firms and the branch party committees (also called mini "tripartite" coordination).

For TexCo, the main focus of the new "2+X" style of union organising is to build up union associations at the district and county levels in the Shanghai region. According to the regional ACFTU's report in 2004, the "non-public" textile workforce, accounting for 88% of the total number of textile workers in the city, are largely non-unionised and lack voice representation. Ostensibly, the enduring "letting-go" procedure of Shanghai's local state textile industry has led to the

⁵² Interview with Mr. Z, the leader of ElectriCo group ACFTU.

TexCo ACFTU, once the state-controlled industrial union representing all state textile workforce in Shanghai, becoming a firm-level union. According to the ACFTU officials, the “let-go” workers have described their fate of being driven to non-state-owned workplaces as an “arranged marriage” and have called for “returning parents’ house”. Cooperating with Shanghai’s regional ACFTU, TexCo’s ACFTU seeks to influence union organising at those “non-public” workplaces by utilising its regional counterpart’s administrative power. A new institution created by TexCo and regional ACFTUs, named the “Regional-based Union Association of Textile Industry”, is regarded as the “new parents’ house” for the “non-public” workers.

Meanwhile in ElectriCo, the tripartite cooperation of union organising mainly takes place inside the group system. Despite the fact that almost all state-owned engineering enterprises have been incorporated into the group, the ElectriCo CCP has rarely extended its entitled authority over LR rules outside of the group for any substantial purpose. Instead, ElectriCo CCP has put much effort into training the grass-roots ACFTU officials in how to bargain with non-state-owned employers. With support from the leading party apparatuses at the headquarters, ElectriCo’s ACFTU’s solution to such diversity of organisations is to sign a “industry-based collective contract” with the group member employers. In contrast to the “regional industry-based collective contract” deployed among TexCo member entities, the contract is only signed by the ElectriCo ACFTU and management from different levels of the group. Such an “industry-wide act” of collective bargaining can be traced back to the late 1990s, when the then ElectriCo corporation was still in the turbulence of enduring “letting-go”. The contract once covered all state-owned entities that were administrated by the former industrial bureau of electronic engineering, providing a legal framework for the downsizing and labour redeployment. Nowadays, this approach is used as the group ACFTU’s response to the bargaining difficulties deriving from the member firms’ diversified ownership types.

There are a few records showing what kinds of specific measures were deployed in the party’s attempts to institutionalise these new forms of union organising.

According to one of the ACFTU officials in ElectriCo, the headquarters has referred to its effort in promoting “innovative” ways of union organising as “man-to-man” tactics. Whilst exerting pressure on individual managing cadres and ACFTU officials in member firms, the headquarters has largely let the grass-root cadres figure out their own way of reaching a consensus with non-state managing personnel in joint ventures and holding corporations. There are a great deal of political activities involved, including the party-led training programmes aimed at improving the ACFTU cadres’ negotiating skills, and also informal forums participated in by all administrative and managing personnel that are designed to enhance mutual understanding between management and ACFTU. Once an agreement is reached, collective consultation at those member firms is subject to the rules formulated by the headquarters-based ACFTU. What is more, firm-level leading cadres are supposed to regulate the whole process of collective consultation in accordance with the protocol made by this ACFTU.

Despite the fact that TexCo and ElectriCo have developed very different scenarios after adopting the “innovative” union organising approaches, there are many challenges shared by the party apparatuses of both groups. A common expression regarding the difficulties of grass-roots ACFTUs’ attempts at union organising is the “three ‘NOT’ problems”, which are “management not willing to talk”, “unions dare not to talk” and also, “are not capable of talking”. With these problems, it is inevitable that grass-roots cadres often resort to asking for direct political intervention from the headquarters.

“There can’t be any real collective consultation happening without (political) pressure from a higher authority... we have our tasks, and they have their own as well. When the administrative cadres (the term often referred to for managing cadres) talk about the emerging pressure from the new market normals that the group is faced with, what can you say?”⁵³

⁵³ Interview with Mrs Q, the chief director of cadre managing office at ElectriCo headquarters.

Similar worries over powerlessness were also conveyed by the TexCo cadres during the research visit. Additionally, many TexCo union officials have found themselves underqualified for the new tasks of union organising.

“For historical reasons, lots of our ACFTU comrades are rather more ‘old-fashioned cadres’ (tu-ling-dao) than bargaining professionals. Even though they have worked for the bureau (the former textile bureau as well as the current TexCo business group) for years, they find their ability does not match with their will when real bargaining with administrative (managing) cadres.”⁵⁴ (Mr Z from TexCo cadre managing department, formerly worked in TU)

It was often reported that the ACFTU officials found themselves feeling awkward when communicating with managers during the process of seeking agreement on collective consulting rules. The headquarters ACFTU attributed these problems to the lagging behind of knowledge and skills of the grass-roots officials, who kept their jobs but had hardly any real bargaining power ever since their units were forced to be drive out of the system of the state-owned group. To reactivate their roles as the state’s representative of labour voices, a series of training and workshop sessions were organised with the expectation them reequipping themselves with the essential knowledge and skills of bargaining.

“At first, almost everybody was (in the scenario simulation session of skill training) clumsy... some of our old comrades not only retained their conventional way of creating harmony, but were also anxious about their new jobs... They kept saying (in an anxiously joking manner), ‘we are now old and useless; this job should be left to young, capable cadres’... I know they were actually in shock with the new policies (the political changes in labour relations).”⁵⁵

⁵⁴ Interview with Mr Z, the chief director of cadre managing office at TexCo headquarters.

⁵⁵ Interview with Mr Y, the senior PM cadre at TexCo headquarters, who had working experience in ACFTU.

For ElectriCo, on the other hand, the main challenge for the party apparatuses was to bridge effective communication with the managers in the group members' joint ventures. The negotiating process with the group's private or foreign partners was said to be incredibly difficult for the grass-roots cadres. Without ACFTU existence since the forming of those firms, many of the managers from the foreign side of the partnership were reluctant to initiate talks on forming new consultation-based labour relations. As has been revealed in the case study, the group's "union association" approach has been operated by another HR consulting corporation that is profoundly influenced by Shanghai's local CCP. Operated as a service of "outsourcing union duties", the "union association" is seen as a credible third-party by both firm-level management and the headquarters CCP. Throughout the whole process of integrating this institution from the outside into firm-level labour relations, the headquarters ACFTU has largely been cooperative with managers either from the headquarters or the foreign partner in joint ventures. According to one of the senior officials from a major ElectriCo joint venture partnered with a Japanese company, ACFTU was given assignments to win over the support of Chinese-born managers during the negotiations:

"The main tactics was to firstly win over Chinese-born managers of the Japanese side... We made much effort to convince them that the new framework will be well-organised and mutually beneficial to the interests of both sides... It is not only a labour of 'charisma', but 'smartness' – for instance, when we proposed a new rate of wage increase, we need to have sufficient market information at hand and to persuade them with statistics and reasonable arguments... It was a tough job, requiring a great deal of negotiating skills and new knowledge, definitely not as simple as creating a new 'trophy' union."

In fact, there have been few reports of foreign partners ever having had open conflict over the terms of the proposed collective contract. Their reluctance could be attributed to the unpredictable and changeable nature of Chinese legislation. To counter this perspective, the headquarters instructed the grass-roots ACFTU officials to have more training on the new legislation in order to be able to

“convince them that business interests would not be sabotaged, because of the arbitrary implementation of LR rules and laws”. In general, the majority of ACFTU officials’ efforts in operating this new union organising arrangement were centred on learning about and listening to the firms’ business needs. At the same time, this predominant role of management also enabled ElectriCo’s headquarters-based ACFTU to retain its link with the groups’ large number of joint ventures without directly intervening in LR matters at the firm level.

Thanks to the joint political pressure generated by the firm-level “tripartite” mechanism, all these kinds of negotiations between ACFTU and management ultimately ended up with settled upon collective agreements. By 2014, both ElectriCo and TexCo claimed that they had accomplished the tasks of extending the collective consultation system through the “innovative” means of a “regional-based industrial union”. For the local SASAC, TexCo’s new approaches are considered an example of how a group CCP can retain political influence over the “outsider” workforces via regulation of firm-level collective consultation, rather than directly enforcing LR rules, even if those former textile SOEs currently have no connection with the group in terms of ownership. ElectriCo’s case primarily centres on organising new forms of union in the group’s large number of joint ventures. It demonstrates the possibility that the CCP is also able to have an eye on working units with complex ownership types. Both of these two types of controlling approaches require a series of within-party negotiations and cooperation.

7.3 “Manager” and “Facilitator”: the party’s role in HR-driven selection of “talents”

The case studies confirm a basic assumption of this research: a firm-level CCP’s intention and approach to promoting market-oriented labour management can be highly diverse depending on the various transition trajectories of the local state sector. For ElectriCo, the HR-oriented ideas and practices have been widely integrated into various aspects of day-to-day management. The managing cadres in the group are avidly involved in HR-oriented management shaping across the

entire hierarchical body. Meanwhile, TexCo has paid much less attention to pursuing market-driven labour management with HR dominance. Leading CCP officials' approaches to developing HR-oriented management are largely to do with overseeing the "piloting" procedures undertaken by the group's profit centres. With respect to the two groups' assigned political tasks, such a differentiation is an accurate reflection of the two groups' different positions in the ongoing course of transition. TexCo's circumstance is often interpreted as "unfinished reform" in the local CCP's political rhetoric, while ElectriCo's highly organised HR-oriented managing system is regarded as a successful example of the local state sector's "modernising" course.

Such differentiation in managing roles also reflects how the two groups handle different goals of staffing flexibility. As it has been discussed in the first section, the complex nature of both groups' workforce composition has driven the two groups to adopt mixed staffing strategies. In this section, I examine the two groups' flexibility-oriented strategies by looking back at their roots in state's political scheme and then move the discussion on to the lens of the groups' differentiated shaping process regarding the merit-based selection system.

7.3.1 Forging a competent workforce as a political task

As has been discussed in the ElectriCo case study, there is the strong presence of a well-organised strategic HRM hierarchy throughout the entire business group. Decisions on training, selection and promotion are highly centralised in the HR department at the headquarters, the group's core labour managing body. Over the years since the forming of the current business group, ElectriCo managing cadres have been eagerly introducing HR-oriented ideas and practices, with the hope of improving workers' competency. HR-controlled performance assessment has been widely adopted in branches and plants. Professional merit, including skill and performance, is valued over politics-related traits in the group's talent selection. Under such a system, the merit-based principles for selecting core workers are applied to all kinds of employees throughout the group.

The case study on TexCo has revealed another pattern of top-down labour management in that HR-oriented practices have never been substantially incorporated into its hierarchy. Without an organised HRM system, the "talents", or the new TexCo workforce aiming for the group's new market strategy, were selected through political processes directly overseen by the CCP apparatus. Decisions on selection and promotion are usually collectively made by party cadres, who are responsible for various professional duties. Only the group's skills training projects for the high value companies have been left to be run by professional HRM personnel.

Despite the contrasting patterns found in the two case studies, both business groups' attempts at reforming their ways of managing and reconfiguring the workforce were triggered by the local CCP's political campaign of upgrading human resources in the state sector. In order to be in line with the national project of "talent strategy", all Shanghai's local SOEs were required to upgrade their human resource layout from 2004 onwards. In 2012, the local SASAC organised a special meeting themed "improving human resource in the state sector", in which representatives of the HR department from the main local state-owned business groups received guidance about making "cadre enhancement" a priority in their long-term endeavour of "building up a new cohort of talents". Simultaneously, SASAC's decision was overlapped with other CCP directives regarding human resources, including the Shanghai municipal government's plan to make the city an "International Highland of Talents" and also, the local MHRSS's plan of attracting certain types of "talents", whose skills are purportedly essential to the city's future development plan. These particular types of "talents" are defined as follows.

- a) "Pioneering research talents" - This category of "talent workers" was experienced researchers who are capable of leading SOEs' tasked projects on new technologies. This term was used to particularly stand for the highly educated returnees, who had research related working experience overseas. Whilst in the context of SOEs' workforce reconfiguration, the term was broadly used for all capable research

personnel. The definition was later altered, whereby SOEs are now required to select “pioneering research talents” from existing employees rather than introducing them from outside.

b) “The talents with innovative and entrepreneur spirit” - The “talents” falling in this category are expected to get involved in the local state-owned business groups’ “future businesses”. Given key jobs in the newly formed branches, these “talents” are guaranteed a great deal of autonomy in relation to management and formulating market strategy. Candidates either from outside or inside the CCP-dominated establishment are all welcome, as long as they are equipped with the essential market-oriented knowledge and experience.

c) “Highly skilled talents” - This term is used to describe the shop-floor workers and technicians whose skills and techniques meet with the SOEs’ transitioning goal of expanding to new market segments. According to the MHRSS’s “Twelfth Five-Year plan”, the amount of skilled workers in the city was targeted to expand to 250 thousand. For the SOEs, the main task in relation to this type of “talents” is to improve senior workers’ skills through training and skills competition.

In order to be in line with these political tasks regarding the required “talents”, the human resource strategy of both ElectriCo and TexCo was presented in a way that merged these CCP national plans with the businesses’ own demands for an efficient workforce. This was especially so for ElectriCo, with the group’s headquarters-based HR department issuing detailed guidelines on delivering the tasks and particular methods for fulfilling the “talent”-oriented HR strategy. Plans for the three types of politically defined “talents” were interpreted into specific HR tasks as follows:

- Reducing the proportion of managing personnel, while increasing the number of technical personnel;

- Focusing on building up the cohort of “urgently needed talents”: including 100 “pioneering research talents”, who are expected to lead ElectriCo’s newly formed research teams; 50 “entrepreneurial talents” for leading ElectriCo’s newly formed overseas businesses; and another 100 skilled technicians and engineers working in the group’s emerging businesses, such as green energy, the smart power grid and recycling technology;
- Developing and applying the framework of “competency model” to the selection process for “urgently needed talents” as an experimental project. If proven successful, the framework then would be widely adopted throughout the whole group for selecting all kinds of professional talents.

TexCo, on the other hand, did not issue guidelines in such a manner. Apart from vaguely delivering the political tasks in a way that replicated the local MHRSS’s directive, its leading labour managing office has barely made any substantial move toward forging a new core workforce. Given that TexCo’s HR-oriented practices have been limited to within the group’s “future businesses”, there has been a lack of motivation among the group’s conventional sector to select professional workers through non-political channels. However, the group’s leading cadres have avidly devoted themselves to establishing partnerships with a variety of Shanghai-based academic institutions, in order to provide the graduates and academics fast-tracks for the opportunities in relation to training, research and formal jobs in TexCo. Coordinated with the party committees from both sides, these academia-enterprise collaborative projects for “talent cultivation”, place a predominant focus on designing and marketing in the fashion industry. In local news, these party-driven attempts of “industry-academia” cooperation have interpreted as “model examples” of former state industry seeking innovative ways of practising the state’s “talent” strategy. Both TexCo and its partnered institutions have fulfilled dual political tasks through the industry-academia cooperation: a) cultivating local SOEs’ human resources to fit in with the city’s “marching outward” strategy; and b) integrating the local resources from various types of party-controlled organisations, in order to make TexCo an example of transforming a labour-intensive industry into being a high value-added one.

7.3.2 “Talent Strategy” – the shaping of the ideology

In light of the above, we can see that both ElectriCo and TexCo have worked to incorporate the state’s project regarding the “talent strategy” into the groups’ own cadre managing system. Shanghai’s local state sector urgently needed a solution to solve the “brain shortage” during the period of radical reform. The “talent strategy” offers local state-owned groups a new framework for identifying potential cadre candidates from the grassroots workforce.

The term “talent selection” first appeared in the State Council’s guidelines for the “Ninth Five-Year Plan” in 1995. Highlighting the “fundamental shift” from a planned economy to a “socialist market economy”, it suggested that a new personnel management system must be equipped in line with the new form of economic growth. Jiang Zemin, China’s former president as well as the former supreme head of the CCP, issued his mandate of “Three Represents” (san-ge-dai-biao) in 2000, highlighting the importance of introducing hybrid forms of ownership to the Chinese economy (see Gallagher, 2002).

The “Three Represents” ideology suggests the CCP should always:

- *“Represent advanced social productive forces”;*
- *“Represents; the progressive course of China’s advanced culture”;*
- *“Represent the fundamental interests of the majority”, thus promoting political consensus.”*

As part of this mandate, the new idea of attracting talent from all walks of life, not just limited to within the party trained workforce, was addressed by the former Vice President Zeng Qinghong. In 2002, the Central Party Committee and the State Council jointly released China’s first national talent strategy, urging party organisations at all levels to shift the traditional cadre personnel management to the more inclusive “talent capital management”. The guidelines state that “talents exist both inside and outside cadre corps” (“cadre talent” and “non-cadre talent”). Hence, it is essential to ensure principles and methods of talent selection keep

evolving. In general, there has been an increasing emphasis on merit-based approaches to managing talent both from inside and outside of the cadre corps (Chen *et al.*, 2015).

With Jiang's new mandate, cadre selection and co-optation in China's party-controlled organisations have been extended to a significantly wider range of candidates. People who opted to take non-political trajectories of careers, such as overseas graduates and professionals who have working experiences in private or foreign companies, are all welcome to join the state's cadre corps. In Chinese terminology, "cadre" is a term used to distinguish people with leadership, management and administrative responsibilities from peasants and ordinary contract-based workers. There are cadres in a variety of organisations regardless of sectors, including party and state administrative units, civil service divisions and enterprises. In the pre-reform period, the main criteria of cadre selection and promotion were political loyalty ("redness" and also moral virtue) and seniority. Whilst merit-based elements were also considered to be important, cadre careers in the Maoist era were for those who were ideologically "Party's men" more than technically capable talents. However, China's market reform has caused a huge deficiency in skilful workers and capable managers in the state sector. As a result, cadres - not only those who have administrative responsibilities, but also facilitators and actual managers in SOEs - had to respond to such pressures with new cadre incorporating methods and principles.

7.3.3 "Bianzhi" is back? – cadre selection and the groups' new formation of differential workforces

To improve the cadre corps in general, the party state embarked on its "*bianzhi*" system reform in 1991, which literally means "compiling and formulating". It usually refers to a planning book that records the authorised number of personnel in a working unit. It also refers to making a plan of personnel numbers, as a verb in Chinese administrative terminology. By cascading the collection of *bianzhi* figures and information from party organisations through all levels, the central Party apparatus is able to control the party-state personnel of the entire nation. In most cases, *Bianzhi* is interchangeably defined as the Chinese version of the Soviet

nomenklatura system. Under the Soviet system, nomenklatura is a “list of positions, arranged in order of seniority, including a description of the duties of each office” (Brødsgaard, 2006). There is also a listing mechanism of cadre leader selection and promotion in the CCP’s party-state, but the Soviet system was not completely the same as *bianzhi*. A *bianzhi* list includes all party-state personnel in a working unit, while the nomenklatura only contained a pool of personnel who could potentially be recommended, promoted and transferred into leadership. In general, *bianzhi* is a list of all the “party’s men” in a party-state organisation, thus delineating a boundary between the core and periphery workforce.

Before 1991, the *bianzhi* was controlled by the State Labour Bureau in that it used to be merely regarded as a labour planning scheme covering almost all working people of the entire nation, in contrast with the nomenklatura system that emphasised party politics matters, such as leadership selection and administration issues. In order to make a slimmer and more professionalised cadre corps, control of the *bianzhi* system was directly placed under the Central

Three types of “Bianzhi”

- **Administrative bianzhi:** authorised posts in party and government administrative bodies. Salary and allowances come directly from the national budget. This category is actually the party-state’s only remaining “Iron Rice Bowl”
- **Civil service bianzhi:** established posts in civil service organisations (*shiye danwei*). Civil service organisations in China’s party state are defined as the units that have no administrative power over other bodies. They are also non profit-seeking units, which differ from enterprises. Hospitals, courts, schools, universities, and other institutions covering services, such as health care, social welfare, culture and research, all fall in this category (See Lam Tao-Chiu and James L. Perry, 2001, pp. 19-40). Not fully funded by the government, these units are supposed to be fiscally self-sufficient by relying on multiple sources of income.
- **Enterprise bianzhi:** posts in enterprises or other profit-oriented entities at various level of the state-related economic domain. It should be noted that private- and collective-owned enterprises are not covered by the *bianzhi* system. Neither the state-funded payroll nor guaranteed permanent job security is included in this type of *bianzhi*.

Committee of the CCP in the 1991 reform. Due to this fact, it can be difficult to

distinguish between *bianzhi* and *nomenklatura*, especially in the context of cadre selection and the CCP's internal politics in relation to leadership changes. In the present context of blending a market-oriented workforce, *bianzhi*, or "enterprise *bianzhi*" (*qiye bianzhi*) is diminishing from official usage, as all reformed state enterprises are supposed to be established upon market-driven labour managing principles.

As an ambiguously defined category in the post-reform era, "enterprise *bianzhi*" is not often used in that SOE workforces are supposed to be market-oriented workers who build employment relations through a labour contract with their employers. Some managers even saw it as an outdated concept during the early period of SOE reform. In reality, the term is normally used to describe the profit-seeking economic entities that are affiliated to civil service units. Contrasting with the other two types of *bianzhi*, personnel under this category are usually not guaranteed job security and pension. Hence, enterprise *bianzhi*s within the civil service system are usually referred to as "bianzhi outsiders".

In spite of the fact that has been disappearing from the SOEs' official terminology, "enterprise *bianzhi*" is still being interchangeably used with other terms in various informal circumstances, such as "core workforce" and "formal workers". For instance, when I was talking about how senior cadres remain their positions the restructured business group with the personnel managing cadres in both ElectriCo and TexCo, they emphasised the fact that all managers and cadre leaders' *bianzhi* status is now enterprise *bianzhi*, whereby they are not entitled to claim allowances and pensions from the state budget any more. Another circumstance took place as I was working as "external specialist" with ElectriCo's HRM department. Every time when we were talking about the new recruits' career-choice path, the HR managers always mentioned that they would ultimately "be in *bianzhi*" or become "formal workers (*zhengshi zhigong*)" as long as they devoted five to eight years of endeavour to getting through the group's long-term career training.

Merit-based principles and means are predominant in these SOEs' selection of the "core workforce". In Shanghai's local state-owned business groups, cadre

personnel management, to some extent, has been incorporated into the HR-driven talent selection. On ElectriCo's roadmap of the career path for its new recruits (primarily targeted at graduate recruits who are considered to be quasi-core workers), becoming a cadre is the terminal stage in their long journey of skill training and interning post rotation. "Talent" is a general concept that refers to all ElectriCo workers, who are considered to be promoted or transferred to technical or managing posts, including both existing cadres as well as ordinary workers whose employment status is only based on their contract. By getting through the merit-based evaluation designed and executed by ElectriCo's HRM department, all workers have the opportunity to be absorbed into the group's talent pool. Then, according to their different professional backgrounds, they will be further directed to different trajectories of career training and rotating internship across a variety of ElectriCo's working units. Whilst it is not completely clear that if those "reserved talents" (the ones being absorbed into the talent pool) would receive any guarantee on safer job security, it was confirmed during one interview with HRM managers that a talent would be treated as ElectriCo's "core workforce" once he/she was selected to a leading or managing post.

These findings suggest that HR-oriented practices offer a merit-based solution that enables ElectriCo's *bianzhi* to evolve in line with the business group's market-oriented agenda. Firstly, it preserves ElectriCo's cadre corps in the midst of SOE reforms by continually redefining the criteria of cadre selection. Emphasising the importance of merit, candidates' professional skills and performance now figure much more prominently in the process of cadre selection than the party's traditionally valued virtues, such as political loyalty ("redness") and self-discipline. Secondly, as with the approaches deployed in China's civil service system, the state corporation has opened up its core workforce by co-opting outsiders of the party-state system with various means of merit-based assessment. On the one hand, the conception of co-opting "talent" and formulating the group's "talent pool" signals ElectriCo's embracing of market-oriented labour managing principles, whilst on the other hand, it subtly augments the legitimacy of the new form of "core workforce" with HR-driven ideas and practices. This has created a virtual wall between the "contract-based" workers and the rest of the workforce. As a result,

segmentation of the workforce has returned to the present meritocratic labour managing system of ElectriCo, in a similar way to the old days' bianzhi/non-bianzhi distinction.

7.3.4 The party's confined managerialism – two market conditions

To sum up the two groups' managing cadres' concerns in formulating staffing strategies, they must simultaneously “enlarge the cake”, whilst justly “dividing the cake”. To “enlarge the cake”, a limited number of workers have been granted high internal flexibility and a great deal of training opportunities. Both groups hope that such an approach to selecting and accumulating “talents” will bring long-term benefits. “Dividing the cake”, on the other hand, entails the CCP's managerial scheme of distributing remuneration and high-security posts to a workforce that consists of a wide range of skill levels. Whilst the CCP guidelines mentioned in the beginning of this section have shown an intuitive picture of how the party plans to formulate flexible strategies of staffing, the actual process has lacked transparency of rules in that “dividing the cake” has essentially been allocated to the party's within-group governance.

Balancing these two goals is central to applying the state's “talent” strategy to the groups so as to make staffing flexibility for the managing cadres a reality. Regardless of the types of business strategy that have been formulated, ElectriCo and TexCo need to balance the “cakes” such that they are shared by the following four basic types of labour:

- 1) Old “cadre” workforces - The managerial and administrative personnel who have gained seniority for their work experience since the pre-reform era. Their enduring stay in the groups is largely owing to their experience in peace-making as well as their knowledge and skills in managing market-oriented organisations. The cadres who fall into the age group between 45-55 are considered to be the backbones of both groups' cohort of leading managing personnel, who are given high mobility among the posts in the headquarters and the holding corporations that serve as the groups' profit centres. In TexCo, there is a large proportion of these old cadres who have been given permanent jobs in non-core business

sectors, given their age and outdated qualifications. ElectriCo's senior cadres have to prove their qualification through being tested by performance assessment. However, decisions on suspension or removing unqualified cadres from their posts are still made by the branch party committee at the headquarters. In other words, cadre staffing decisions are still dominated by high-level political decisions, rather than entirely determined by HR-driven means with quantified measurement.

2) New merit-based workforces with long-term potential - Recruited for managerial and skilled technical jobs, these workers in ElectriCo are primarily graduate recruits who are considered as the groups' "reserved" cohort of cadres. They are subject to a series of assigned training programmes and job rotation among a variety of the group's member entities. The "apprenticeship" period, taking at least eight years, also grants them sufficient seniority to be moved to the group's "cadre" pools, in other words, "entering bianzhi" (*jinbianzhi*). Very few of these recruits opt to drop their apprenticeship programme and quit from the groups. That is, most of these potential "cadres" strive to "enter bianzhi" for a stable career. Their work experience leads to them being formally confirmed as long-term employees, which also means they have sufficient high quality employability, that if they decide to leave, they are considered by other prospective employers as being fully qualified. Meanwhile, in TexCo, where there is no campus recruiting scheme, these core workers are primarily hired from the external labour market for their experience and high technical or managing skills. Employed in the group's high-end manufacturing sector, they are offered a decent salary and long-term job security. There have been a few case of acquiring "talents" through external recruiting by ElectriCo, as the group's talent strategy is based on the culture of "*self-cultivation*" and "*learning-oriented organisations*" (*xuexixing-zuzhi*)⁵⁶.

3) Periphery "outer-bianzhi" workers - The employees recruited for the contingent, short-term jobs. These labour market employees are widely deployed

⁵⁶ Quoted from the interview with ElectriCo headquarters' HRM manager.

in the groups' "tier-3" or lower levels of member firms. As a result of the legal change in 2008 ⁵⁷, the SOBGs have significantly discouraged any further recruitment of labour market workers. In principle, the existing periphery technicians and engineers who have been employed for over two fixed terms were instantly given status as core workers, depending their seniority and their proven qualification of skills. There have also been a number of cases where the employers refused to renew contracts on the grounds of workers' incompetence. In ElectriCo, these short-termed, contingent employees have access to the group's HR-driven scheme of promotion, but usually can only obtain tenure with some extraordinary merit that is recognised by the group. For most cases, these workers' contracts will be ultimately terminated on the grounds of their lacking competence. Many of them spontaneously opt to leave within the term of the contract. In TexCo, on the other hand, member enterprises are given autonomy regarding external recruitment. It is rare to see an external recruited employee obtaining an offer of a long-term job subsequent to their initial short-term based contract.

4) Temporary/agency workers - With the state-driven discouragement of agency employment and reduction of the number of agency workers, the remaining agency workers were also given chances to become the groups' core cohort of technicians. However, these changes have largely been in name only and the vast majority of agency workers have eventually been returned to labour agencies once their contracts terminated.

In general, the CCP's influence on HR-driven managing matters has mainly reflected the groups' core workforce staffing strategies. As ElectriCo seeks to integrate its main business sectors for breaking into the high-end manufacturing market, the group has targeted its staffing strategy as heavily relying on a new cohort of skilled workers. Hence, its CCP actually has the leading managing role within the whole group hierarchy. In contrast, TexCo has invested its high-skilled personnel in specific future-oriented sectors; at the same time, the group has

⁵⁷ Employment contracts must be made open-ended after two fixed-term contracts. Also, the employer must state the reason for terminating existing employment contracts.

needed to maintain its traditional businesses. As a result, professional HR-oriented managing practices have only been adopted by the organisations that engage in the group's "future businesses", such as the high-end manufacturing and fashion businesses. TexCo's CCP only plays a facilitating role in these organisations' piloting and experimental project on HR-oriented measures.

7.4 An authoritarian pragmatist future? – A theoretical reflection

As has been discussed above, differentiation of the form and extent of control can be found at all levels of the SOBG systems, according to ownership types and type of business of the individual organisations. On the one hand, such intra-organisational heterogeneity demonstrates how much autonomy the grass-roots managing cadres are granted and also the diversified nature of their jobs. On the other hand, it can be seen that both the two investigated SOBGs manifest strong uniformity in terms of operating the CCP's guidelines and decrees. Two types of governing approaches, campaigning and task-based cadre personnel management were found that have been adopted by the leading party apparatuses for ensuring all levels of the groups are in line with the CCPs' political agenda. These two kinds of governing approaches have led to a diversity of implementation within the groups' member firms owing to the lack of clear instructions on how to achieve the goals that the party has been aiming for. The actual processes of deploying labour management have turned out to be highly flexible, but at the same, the leading cadres are always ready to intervene directly when there are unresolvable issues with political measure. Hence, the SOBGs, as regimes through which the CCP implements its labour politics, appear to be either hierarchical, in the sense of directly planning and operating labour management or loosely organised as networks of organisations with the party's distant political control.

7.4.1 All-level heterogeneity and the spectre of the party: still a monolithic approach to the IR system?

Now a picture of how the groups' labour management operates as a part of the party's labour politics has been provided, it is apt to return to the question posed at the beginning – what does such an authoritarian model of labour control in the

SOBGs mean for the party-state's path of industrial relations? In the industrial relations writing that has attempted to give answers to the "what comes next" question regarding China's path, a focal aspect of the debate has been whether China's post-reform shaping of industrial relations is on a converging or diverging path. After over three decades of reform, China has not reached the ultimate destination of liberal-pluralism, or confirmed "divergent" viewpoints that its industrial relations system would develop into an indigenous system of rules, as happened in Korea and Taiwan. The nation's bewilderingly fast pace of socioeconomic change has made it increasingly difficult to develop a theory demonstrating a monolithic image of China's industrial relations system. Instead, there has been heterogeneity of union strategies and the CCP's political influence on labour relations not only between, but also within regions, industrial sectors and in relation to ownership types. With respect to the local state sector in Shanghai, the intra-sectoral heterogeneity has been derived from the changes in the emerging market environment as well. These changes have included the following.

1) Initial decentralising that led to managerial prerogative in SOEs, which was followed by re-centralising that finally forged the current business groups via "grasping bigs" policy. This has created a large cohort of cadre managers who have (or have been assigned with) the market-oriented interests of their own businesses.

2) The local CCP's developmentalist agenda of revitalising the local state sector by encouraging the managing cadres of SOBGs to act independently to find solutions that will benefit the groups' business interests.

3) The party leaders at local SOBGs have continued to own the responsibility of creating harmony within the local state workforce. However, such responsibility is now largely undertaken by grass-roots party cadres at various levels of the group hierarchies, rather than fulfilled with a uniform command of party governance. As a result, the actual negotiating processes of firm-level labour relations have turned out to be highly flexible and informal.

In spite of such a heterogeneous nature of the local state sector in Shanghai, the CCP's ubiquitous existence in almost all aspects of labour management is still an important institutional phenomenon yet to be adequately explained. In business school writing, the party-business relationship has been frequently discussed (see Brødsgaard, 2012), but there has been a lack of in-depth scrutiny regarding the particular measures and methods that the CCP has adopted to influence market-based matters within businesses. In this research, the case studies have revealed that the CCP apparatuses are often behind many seemingly contradicting or even adversary relations. If all kinds of interests within labour relations can be finally balanced under the CCP's command, does that mean there are separate interest groups emerging within the group-based CCPs ? Would that mean there is a pluralist possibility for China? If not, then what kind of institutional dynamics of party-driven governance is behind such form of authoritarian unitarism in those SOBGs? On the whole, in order to shed light on what does SOBG's labour management mean to China's path of industrial relation shaping, we need to study the party.

7.4.2 All party's men - a sustainable future of authoritarian unitarism?

As the case studies have revealed, the CCPs in both groups have been seeking simultaneously the achievement of multiple market goals. At the same time, they have also been striving to build consolidated employment relations with various types of workers. The managing cadres have constantly altered labour managing strategies in response to the groups' market and technological contingencies. Being "core" or "periphery" workforces is not necessarily determined by particular political or social backgrounds. Across different departments and organisations within these group hierarchies, it is difficult to conclude that there is common standard in terms of what the groups' core workforces consist of. Looking at it from the perspective of party governance, allegiance and loyalty to the party are still central to selection and promotion. However, from a market-oriented perspective, skills and achieved merits are particularly valued nowadays. Hence, there appears to be two layers of co-existence of seemingly contradictory logics: 1) that between the labour strategy in responding to contingent needs of

market and technology and the personnel management driven by the political principles of the party-state; and 2) what has been mentioned in an earlier part of this chapter, the contradiction between the two different types of staffing flexibilities, functional and numerical, within the groups.

To refute this apparently contradicting perspective, it is necessary to consider the dual identities of the focal SOBGs as market-oriented entities with the CCP's governing system of local state-owned industry. First off, from an organisational perspective, the groups' needs for a mixed labour strategy conform to some management school writers' conceptualisation of the contradictory types of labour flexibilities, namely, functional flexibility and numerical flexibility (Kalleberg, 2001). Even though a few studies have suggested that simultaneously seeking both kinds of flexibility is possible in some scenarios, such approaches (for example, HRM) often result in tension and conflict between the temporary and permanent workforces (Geary, 1992). Some other researchers have offered a combined framework that attempts to consolidate the contradiction between functional and numerical flexibility, with Atkinson having been one of the most influential researchers who has been devoted in this endeavour. His core-periphery model offers decision makers at government and firm levels a framework for deploying a segmented labour strategy. This framework indicates that the workforce within an organisation is separately treated such that the long-term, "core" part and the short-term, "periphery" part, with which managers can establish different employment relationship. This Weberian ideal-type has been criticised for its oversimplifying of the dynamics of the real world (Hakim, 1990, p. 162). For example, the scenarios in which core and peripheral workers may be assigned the same jobs or allocated within the same department is neglected in Atkinson's model. Also, the framework is not able to offer an explanation as to how organisations are able to obtain the numerical flexibility from the core workforce, for example, through an overtime working culture derived from some HRM practices (Ackroyd and Procter, 1998, pp. 170–175).

A similar problem would happen if ElectriCo and TexCo were examined with a core-periphery framework. That is, except for the agency workers, the

segmentation within the groups' formal contracted workers is rather ambiguous. Labour managing practices regarding wages, welfare and job security are unevenly implemented among the groups' affiliated organisations. In ElectriCo and TexCo, "core workers" (those who are given high job security and relatively more opportunities for training and promotion) are primarily deployed in the headquarters' directly controlled holding corporations, which are the groups' core entity of formulating strategy on marketing, research and development and sales. Meanwhile, "periphery workers" (those who are given contingent jobs with short-term contracts) comprise the backbone workforce in the subordinating corporations and ordinary production units. Such internal disparity was not a direct outcome of the group headquarters' top-down enforcement, but rather, shaped by a dynamic transitioning process. On the one hand, as a revamping solution for the state sector, the formation of the business group in the early years of the 21st century, enabled the newly formed headquarters to act in the role of the state's strategy designer, enforcing that the labour managing practices adopted in all subordinating units was in line with the issued general framework. On the other hand, mixed deployment of "core workers" and "periphery workers" within the organisations has been widely practiced among the group-governed units, thanks to the pragmatic staffing approaches they have adopted since the early period of reform. Many posts and departments have interchangeably staffed with the new labour market workers and the remaining senior Danwei ones.

Next, from a political perspective, those SOBGs by their nature are governed in a way that mirrors the upper-level party-state's decision making mechanics. For the party, those group hierarchies are supra-organisational institutions that have been assigned to operate the state's strategic decisions on labour relations. The operating methods are allowed to be flexible in adapting to the enterprises' contingent conditions, but in the end the results are supposed to comply with the party's political goals. With such a form of CCP reign, the collective consulting system in these groups is not only a labour managing solution of seeking a consolidated framework of employment relations within organisation, but also the party-state's political attempt to build a quasi-corporatist IR system in the local state sector. ACFTUs are supposed to represent all SOBG workers by addressing

labour interests in collective consultation with the “management and administration” side, largely represented by the party’s managing cadres. By adopting such a corporatist framework that is seemingly similar to German and Swedish IR models, the party hopes to legitimise core workforce participation in the groups’ hi-tech, high skill business sectors. In addition, given the powerless status of firm-level ACFTUs, the “collective agreement” that was de facto created by the CCP is often interpreted as a legitimate result based on the spirits of “democracy” and “cooperation” between the union and management. As a result, other effective channels for expressing labour interests are literally non-existent in accordance with the “rule by law” principle in industrial relations. Also, the CCP’s often pro-management stance has been institutionalised through this quasi-corporatist framework, which enables managing cadres to deploy the internal flexible labour strategy easily.

In addition, creating a flexible organisation comprising workforce targeting for different market goals is another party interest. As almost all SOBG managing cadres have stressed - “making profits is naturally the fundamental goal for us to carry out reforms” and hence, the managerial forces within the group systems are always highly organised and dominant. Without independent opposition to the party’s managerialism, market-based interests are always monolithic in any of the CCP’s decision making regarding labour management. The dualism of the ideologically defined “working class”, namely “cadres” and “masses”, has constantly been altered throughout the CCP’s history. In relation to the party-driven industrial relations, such dualism was eliminated during the early period of the SOE transition, when the traditional socialist contract between the Danwei and the working class was scrapped by the party-indulged managerial prerogative in Shanghai’s SOEs. Nowadays, the new political-economic settlement, the hybrid form of governance of the local state-sector led by SASAC, requires a redefined dualism: a new cohort of long-term, high-skilled workers for the state industries’ future oriented strategy; and also another sizeable cohort of contingent workers - short-term, replaceable and low-skilled, in order to make the industries’ low value-added production sustainably profitable. It should be noted that this typology of two cohorts of workers only reflects the party’s updated “cadre-mass”

notion, rather than the real dualist formation of workforces. The complex nature of core/periphery formation, in reality, reflects the groups' flexible organisational settings and ambiguous rules regarding the "transmission belt" of elite cadres.

To sum up, there are two faces of the CCP's controlling approaches in response to growing contingencies. To mitigate the increasing inequality between capital and labour, the CCP (the group CCPs) has been, on the one hand, avidly attracting and co-opting a new form of high-skilled workforce at the organisational level, with the hope that these new core workers will play an important part in the groups' commitment and its cooperation-based labour management. On the other hand, the party has been seeking to rebuild harmonious industrial relations at the institutional level through top-down implementation of a collective consulting system. These managerial and political measures are targeted at creating a form of fluid managerialism, which will secure the CCP's agenda of forging high value-added state industry along with industrial harmony. In addition, there is the other face of the CCP that has been seeking to amplify short-term managerialism, whilst at the same time undermining any possible form of organised labour opposition. At the organisational level, the group the CCPs have been deploying labour managing measures aimed at numerical flexibility, including the exclusion of the non-core business sectors through outsourcing or distantly controlling production units. There are also a number of member organisations staffed with office workers who are only employed for contingent goals. At the institutional level, the party-state's pseudo-tripartite system legitimises undermining ACFTU's status. As a result, labour dualism in the local state-owned sector has been intentionally further consolidated and made even more complicated.

It seems that the CCP's flexible ways of governing have made it possible for two contradictory labour managing logics to co-exist. Goldthorpe (1984) has argued that corporatist and dualist structures are unlikely co-exist because their logical and ideological implications fundamentally contrast with each other. However, the discussions in previous sections of this chapter revealed the fact that such "co-existence" has been created in Shanghai owing to the group CCPs' changeable roles regarding different types of political and managerial matters. Such flexible

methods of control are also based on ACFTU's non-antagonist, consulting role, which has been dynamic in its relationship with other party-controlled institutions, but nonetheless remains powerless. Also, the SOBGs' models of "flexible organisations" have been shaped by the CCP's flexible ways of labour control, thus resulting in the co-existence of two contradictory types of flexibilities, i.e. functional and numerical within the organisations. It would be appropriate for organisational study writers to examine the party as a supra-organisational to provide understanding regarding such a form of co-existence. Another important aspect worth noting is that as the CCP has responded to a variety of contingencies, both internally and externally, the party's labour management approaches in the SOBGs have not been uniform. Burns and Stalker (1995) have pointed out the ways western corporations' self-adaptive mechanism in the midst of highly complicated settings of contingency. Accordingly, the group CCPs often alter their stances in a continuum of two extreme ideal types of approaches: "mechanistic" and "organic". However, it remains to be seen how sustainable such a unitarist approach can be. Alternatively, in striving to achieve the dual goals of authoritative control and market success simultaneously, has the CCP found a solution to engineering its increasingly urgent contingency problems?

7.4.3 Developmentalist state and managerialist party

For the CCP, the main difficulty in governing local state-owned enterprise derives from the diversity of their business categories, as well as their linkages to the local party authorities' developmental agenda. In the middle of the nexus of party-state policies, the local developmental agenda and their own autonomous managerial power granted by the party, the party leaders of these enterprises are under pressure to choose carefully strategic options from their toolkits. For the firm-level CCP, both business and labour harmony are political matters. In particular, the SOBGs in Shanghai, the "top students" in terms of governing the local state sector, must maintain their role as the nation's model example of state-sector reform.

The ways in which the CCP is delicately balancing business interests and labour harmony as found in the case studies reflect the party's pragmatic nature. To

sustain its control over the state-owned industry, it has no choice but simultaneously to play multiple roles in labour management, in order to adapt to the post-reform political-economic settlement. To understand the potentially unsustainable future of such organisational unitarism, it is necessary to consider the post-war changes of industrial relations system in the European context.

Political monolithism

The first half of the twentieth century was the age of Fordism and capital accumulation. At the workplace level, the basic principle of Fordism, standardised control of production, was mirrored by bureaucratic systems of personnel administration. A formalised mechanism of collective bargaining was built upon the basis of mass trade unionism that was shaped on the labour side. Such an adversarial relationship was gradually accepted by employers in institutionalised ways for its benefit of containing and regularising industrial action. At societal level, an organised mass labour force had become a potent participant in constructing post-war political settings. The Keynesian welfare state was built on the basis of guaranteeing effective state intervention in mass production. Treated as an extension of the industrial relations system at the workplace level, the political system had developed into being a consolidated arena, where the labour force and employers, as monolithic political powers, were able and supposed to seek mutual recognition of rights and status.

Segregated labour market

Such a consolidated framework of industrial relations subsequently was eroded in the wake of the increasingly divided labour market. This change can be attributed to a couple of aspects of development. Firstly, employers in the public sectors of Western European countries, especially those in manufacturing industries, had growing interest to become competitive participants in the global market, which inevitably collided with the traditional notion of collective bargaining that guarantees public sector unions pushing for the adoption of their own distinctive agenda. In the wake of the rapidly forming post-war global market, the employers became increasingly exposed to multiple endogenous factors that were difficult to predict, such as the global energy crisis and market pressure from emerging economies like Japan and South Korea. Secondly, new technological developments, especially computing technology and microprocessor-based products, have exerted a fatal impact on Fordism. As a result, the process of production was profoundly differentiated. For employers, a flexible labour strategy had become crucial in guaranteeing firms' success in such a new global political-economic setting. Also, these changes in management were mirrored by a new framework of industrial relations, which called

for building a new political consensus through having a more flexible approach to labour-management relations, such as creating internal flexibility of jobs and involving labour's participation in management.

Managerial prerogative

In the European context, the growing pressure of global competition and technological development forced managers to adopt more flexible approaches in handling employment relations, which consequently evolved into becoming the managerial prerogative. The very foundations of the industrial relations system, organised representation of labour interests and a codified rule making process via collective bargaining, were gradually dissolved by the contagious managerial mentality within organisations. Also, the market liberal policies adopted by Western governments in the last two decades of the twentieth century accelerated such trends – the upsurge in the international flow of capital and the labour force has driven managers to seek flexible strategies for coping with contingencies. In particular, given the profound influence that financial institutions exert upon firms' strategy making, managers are often constrained by the investors (or their computers), who "vote by feet" (Streeck, 1992). In light of these changes, the workforce is becoming a factor that is supposed to commit and cooperate in forging corporation cultures. "Managing people as a vital form of resource" has consequently become a predominant notion amongst managers.

In contrast to the European experience, China has taken a completely divergent path in terms of state and societal level of industrial relations evolution. Without an adversarial relation between union and employers in the one-party state, there was no issue regarding employment relations within organisations, before the CCP initiated the "opening-up and reform" policies. In the wake of the dissolving of the socialist contract of permanent job security and fixed pay, SOE managers had no choice but embarked on coping with the dilemma between market-oriented interests and labour harmony. The case studies on ElectriCo and TexCo have demonstrated different approaches that cadres and managers in these business groups adopted to resolve such a dilemma. Regarding which, a common trajectory that the two groups have generally undergone has been revealed. First off, the process of "Grasping big and letting small go" in the local state-owned industry has brought the groups an ongoing quest of workforce configuration. The old Danwei workers, the original core workforce, politically and technically, were sequentially stripped of their privileges guaranteed in the pre-reform era. In fact, in various

ways, they were coercively driven from their jobs. Meanwhile, the influx of a new workforce owing to labour market opening-up and loosen restrictions on Hukou quickly replenished the vacant posts left by the “resettled” Danwei workers. Next, the group CCPs started to build up new forms of legitimacy by regulating the relations between the various forms employers of workers inside the group hierarchies. In accordance with the upper level of the CCP’s political guidelines and decrees, a quasi-corporatist framework of collective consultation was deployed in the two groups. The deployment process within them appeared to be highly flexible, given the diverse settings of power relations between the party, managers and labour within the groups’ member organisations. However, the deploying of collective consultation in the two groups has ended up with a new form of the CCP’s controlling mechanism of employment relations within these diverse settings, whereby the party has been able to continue its reign over labour management at the grass-roots level, but not frequently intervening in detailed matters. Thirdly, in response to a growing amount of market contingencies, both groups have opted to pilot and limitedly deploy HRM-based labour managing practices. In ElectriCo, such a trend of prevailing HRM notions and approaches is especially apparent - the traditional party-driven approaches of managing and co-opting new workforces are now augmented with HR-oriented practices of quantified measurement of performance and employees’ career development. HRM professionals are also given a say in the group’s strategy making. Whilst their counterparts in TexCo are still constrained within the group’s piloting project of future orientation, these quantified controlling practices are also widely adopted its member enterprises, being regarded as the “advanced” and “effective” means of improving profitability.

In general, the evidence regarding Shanghai’s local state sector reveals a “compressed history” of transforming labour management. In a relatively short period of time, from early 1980s to the present, the group CCPs have had to endure dilemmas and challenges in relation to the ever-changing forms of labour-management collision that European countries had undergone throughout the entire post-war era. Instead experiencing a history of politically being opposed to each other, as has been the case in the Western context, the managerialism of the

state sector and voice representation of the various workforces have been packed within one grand political agenda of the CCP. For over three decades of party-driven market reform, the CCP has remained sovereign and seemingly determined to continue its comprehensive control over all parties of industrial relations.

“Talent”-based meritocracy: the new face of pragmatist unitarism

From the case studies, it has that the party-led meritocratic selecting and promoting system is the key institution for ensuring that the CCP successfully operates its paternalistic rule over the focal groups’ labour management. In terms of selecting capable workers from grass-roots level, the CCP’s meritocratic approach is not new. That is, achieved merits have always been a significant indication of capable party cadre candidates. Whilst other political factors, such as seniority and loyalty, were once valued more than merits, the notion of selecting by measurable skills and merits has become particularly valued in the midst of the SOEs’ enforced transition. As has been discussed earlier in this chapter, the contemporary definition of “cadre” has moved beyond its original political meaning in the pre-reform era. Today’s “cadres” are defined as elite managerial and administrative personnel, who are extensively deployed in the party-state’s bureaucratic organs. In both ElectriCo and TexCo, workers’ roads to the groups’ cadre cohort largely overlaps with the roads to the core workforce. With such an upgraded version of the “transmitting belt” of the CCP’s elites, both core and periphery workers’ interests (the dualism of “cadres” and the “masses” or those who are “inside *bianzhi*” and “outside *bianzhi*”) have become intertwined with the group CCPs’ managerial means.

It is concluded that the group CCPs have aimed to incorporate core workers into the party’s cadre management so to achieve the following goals. Firstly, by offering opportunities of promotion to key managerial and administrative posts, it is hoped that such a co-opting method will bring new skills and “brain power” into the cohort of party cadres. Secondly, the selecting and managing practices with HR elements are used to mitigate the divisions among the groups’ diverse workforces. Meritocracy is not only seen as the party’s transmission belt for new cadres, for it is also the solution to quelling the voices from various types of workers within the

groups. As quoted from one of the managing cadres at TexCo's headquarters, "...let all workers 'take the same exam', and let the 'final score' judge (who are the competent workers)"⁵⁸. In defending the fairness and transparency of ElectriCo's labour managing approach, the cadre who supervises the HRM department's work said, "a lot of speculation suggests that state enterprises only select workers who have human connections (*guanxi*), and that is totally false - no individual in an (member) enterprise is able to nominate or promote workers. All of our youth cadres are chosen by the system rather than personal connections". Moreover, meritocratic ideas are spread as an ideological rhetoric, emphasising the notion that workers gain what they exactly deserve. Managers of member enterprises are given headquarters' tacit consent to eliminate the incompetent and inefficient workers, as judged by the quantified measures. Such power is also authorised in both groups' collective contracts in an uncoded manner, which allows for a fair amount of leeway in their interpretation.

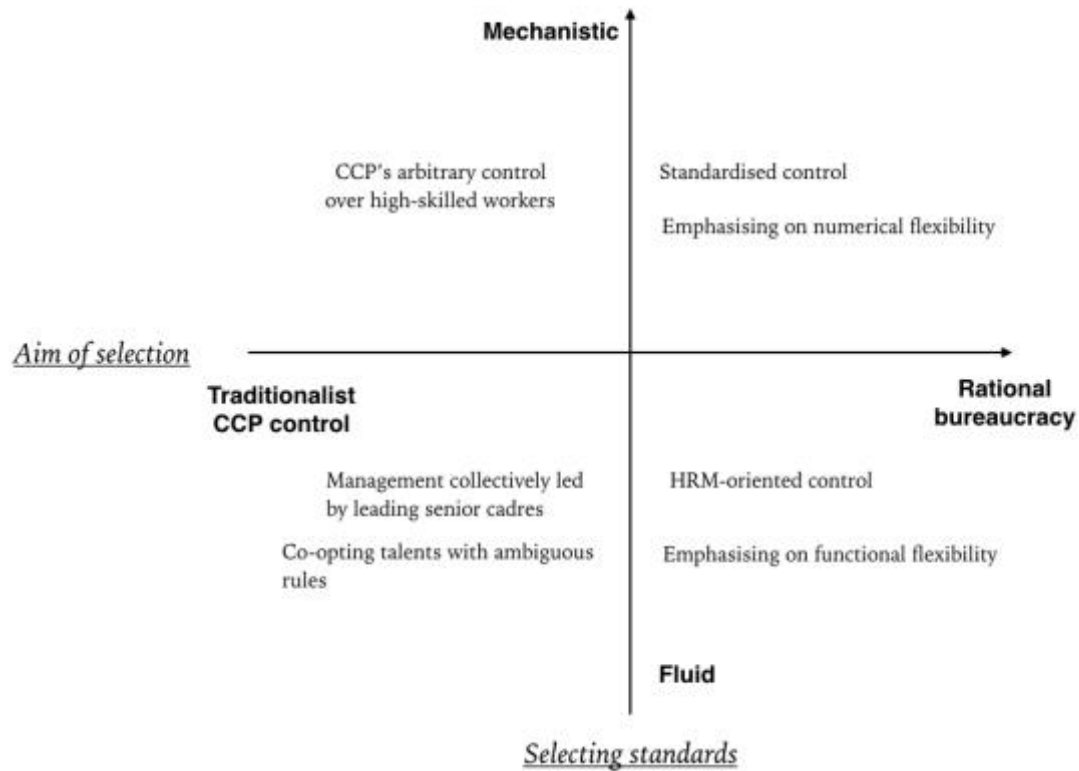
However, the evidence from the empirical inquiry into the ElectriCo group could suggest the possible ineffectiveness of such a managerial approach. The group's HRM department has struggled to deploy its piloting project of "competence models" (CM) among senior cadre leaders, who conveyed their concerns about the potential damage that HR-oriented quantified measures could inflict on the group's overall cadre management. In the party academy meeting regarding the pilot project, the HRM department was criticised for "neglecting the group's real need for 'talents' in the designing of CM". The senior leading cadres were particularly not happy with some of evaluating standards regarding the group's future oriented industries, which require cadres frequently to update knowledge related to those new technologies and markets. "The leaders (leading cadres) said these cutting-edge industries matter in the group's future, but the standards of evaluating cadres overall shall not be totally built on these particular sectors" (the head of HRM department). As a result of the rejection from the top, the experiment of deploying the CM system was ultimately suspended and the "core talent" candidates selected via the HRM-controlled channels are now subject to being

⁵⁸ Interview with Ms L, the TexCo senior cadre in charge of "cadre training" at headquarters.

scrutinised by the headquarters leading cadres. Consequently, it is reasonable to suspect that the results of the group's meritocratic system exactly reflect the selecting standards the group claims to follow. In the other focal case, TexCo's CCP oversees every step of the selecting process, making the "talent" selection no different from the group CCP's traditional way of selection.

By their very nature, meritocratic managing systems in both groups have been deployed on the basis of weak unionisation and disorganised representation of the workers' voice. It validates workers' failure to secure safety and decent pay. It makes an ultra-form of managerialist idea deeply rooted in workplaces: in front of the monolithic being of market forces, all kinds of non-market-oriented voices are irrelevant. Given such paternalistic and pragmatic approaches to tackling labour voices, SOBGs' meritocracy should be understood as an institutional and political, rather than merely managerial, process of engineering the group CCPs' ideal workforce formation. For the party cadres, both business success and labour harmony are political and hence, the workforce formulating strategy is bound to be flexible.

Figure 7-2 Idea types of CCP's workforce formulating strategies



The frame of reference demonstrated above illustrates four ideal types of workforce formulating strategies determined by two continuums: 1) the party's aim regarding selection; and 2) the selecting standards for potential core workers/cadres. In terms of the level of deployment extensiveness, I contend that there are two ideal types of organisation that the groups' member organisations can possibly result in given the CCP's willingness to resort to meritocratic means to reshape the overall workforce. They will either create a new form of Weberian "iron cage", in which the member organisations of the groups will ultimately evolve to be highly rational bureaucracies that meticulously measure workers' traits and deploy quantified means of control or they will retain the traditional types of party organs, where rules of jobs are totally determined by political decisions. It has also been learned from the case studies that the meritocracy in SOBGs does not necessarily abide by the principle of selecting by "merits". Despite the selecting systems being designed with the intention of offering opportunities regardless of workers' backgrounds, "merits" have been defined differently across

and within the SOBGs. Hence, the CCP's flexible selecting standards can be understood as a continuum of "Hard" type and "Fluid" type. The "Hard" type of standards represents the SOBGs' requirements on measurable elements, such as skills, educational backgrounds, awards and achievements. The "Soft" standards include some unquantifiable traits regarding workers' cooperation and commitment within organisations, such as communicating skills and political awareness.

7.4.4 Party' choice to be "future-oriented" – what to do, and what not to do?

From my participatory observation experience, leading cadres in both groups conveyed similar worries about the potential danger that new technologies and labour managing means would damage labour harmony in the groups' workplaces. Especially in ElectriCo, where the HRM-oriented concepts and practices were rapidly on course to replacing the original party-led personnel arrangement, the failed project of deploying a "competency model" among leading cadres was not only out of concern about the evaluating method itself, but also the worries about the possibility that the new market and technological environment would ultimately dissolve the party's control over labour management.

In ElectriCo, the emerging business sectors, such as smart grid and the automation system as well as the group's prototype concept of "Industry 4.0", have been appointed to being the harbingers of the groups' future orientation of HRM. Largely influenced by its European joint-venture partner through various exchanging training programmes, managers of these sectors are forging ideas on new forms of managing practices in response to new technological trends in manufacturing industries, mainly new data technology and cyber-physical systems. Trained to have a "networked mentality" to adjust market strategy, those managers proposed new managing schemes that put emphasis on the cutting-edge skills, such as data analysis, automation system design and "network-based" leadership, which leading cadres have frowned upon.

"... those training courses (organised by the HRM department) make us feel rather outdated... the new comer youngsters in (ElectriCo's member) enterprises now do their work on WC (a Chinese mobile social

*media application, which was totally unimaginable for me when I entered the group. I mean having new technology is always good, but those new methods must match with the reality of the group.*⁵⁹

The new methods Miss F mentioned are the network-based workflow introduced by the European company that ElectriCo is partnered with. Having been already deployed in ElectriCo's core high-tech sectors, such as wind-farm and automation, the basic idea behind this approach is to integrate different departments of the production process, including the research and development as well as the marketing and engineering teams, in order to communicate and coordinate in real time. Whilst this is still in the preliminary stage of deployment (*quoted by HRM managers, it is still Industry 3.X*), the HRM department has started to formulate a new human resource selecting scheme based on these ideas. Moreover, the experimental project of the "competency model" was also designed for preparing the group's imagined orientation of "Industry 4.0". However, as discussed earlier, ElectriCo's leading cadres rejected this experimental project out of concern about a universal evaluating scheme being applied to the group's top party executives. In addition, the HRM department also expressed its on the potential impact of such an approach:

*"If these European standards become the new normals for us, there will be a huge impact upon all of our workers... we still need to work on this in cooperation with technical and marketing departments, and I believe at this point this is not a realistic solution for us. These concepts look very appealing, but if we just copy these (from the European partner) - then simply no one can compete."*⁶⁰

These concerns reflect the group CCP's worries on the changes brought by the new forms of market and technological contingencies. In the Chinese manufacturing business community, it is an extensively discussed topic as to whether the imminent arrival of new manufacturing technologies, such as the Web of Things and cloud computing, will reshape the entire industry. The "European standards" that Mr J mentioned is the new form of manufacturing workflow having been adopted by the ElectriCo's joint-venture partner in its Europe-based companies

⁵⁹ Interview with Ms F, the ElectriCo cadre who supervise the headquarters HRM department.

⁶⁰ Interview with Mr J, ElectriCo manager of headquarters HRM department

and plants. Different to traditional manufacturing plants, those “smart factories” rely on algorithm-based computing control to create a “web” of men and devices. In this “network of things”, procedures of production, ranging from the initial stage of designing to the terminal end of marketing, are decentralised and being proceeded with in real time. In terms of human resource, it requires workers possessing a wider range of knowledge and experiences. Also, as “networked players”, workers are required to be equipped with new types of teamwork skills that enable them to “process and share fluid information”. Just like what Miss F has mentioned, social networking has become a vital part of this new approach. Whilst the deployment of a smart controlling system driven by artificial intelligence has not been put on agenda yet, a handful of “talent” cadres are now being trained to adapt to these new techniques.

Such a way of acquiring knowledge regarding the new trend in the market through partnership with foreign counterparts is not new in SOBGs’ transitioning history. From 1999 onwards, ElectriCo started to send labour managing cadres to western countries to study “modern, advanced techniques of managing workers”. Their destinations, mainly business schools in Canada and the Scandinavian countries, offered those future managers HRM courses and opportunities to visit workplaces.

“We were deeply impressed by the new knowledge. It was an impact in notion; for the first time we realised that human resource management is not merely a discipline or some sophisticated techniques, but revolution in notion.”

“.....I still remember our Canadian mentor saying, ‘the world is increasingly growing smaller; resources and information are now far more approachable than ever... HRM is about a notion allowing us being able to put such a smaller world in hand...”⁶¹

Regarding the newly introduced managing practices, Miss F expressed conflict in her feelings:

“... Now it seems that we are the next ones to become the endangered species (laugh)... To be honest, I kind of worry about the group’s future - we

⁶¹ Interview with Ms F

(leading cadres) are all very clear about what technological evolution means to the group. You adapt to or you die - that was the exact lesson from the SOE reform in 1990s. I'm not sure that this 'Industry 4.0' thing will become a prevalent trend of new industrial revolution - Americans haven't done that; neither have Japanese... but the ways of work today indeed are very different from the days I was familiar with. Just look at how our men are now working on the social networking platform - when I was at their age, learning Excel and the English language were sophisticated enough..."

Inside ElectriCo's future-oriented business sectors, these new trends of management, indeed, have changed working procedures tremendously. Conventional production has always entailed an orderly procedure. That is, to produce and sell an industrial product, this inevitably starts with market research, it then proceeds to the design, actual manufacturing and quality monitoring and ultimately, marketing. Each stage of the production process also entails orderly organised procedures - targeting problems or asking questions, then figuring out methods and solution, thus finally solving the problem. Any kind of working procedures in SOBGs has always been subjected to a certain temporal order - projects processed with a beginning, middle and an end. However, those new managing techniques as well as the cutting-edge technologies that are yet to be widely deployed, are creating a new type of working culture. For workers and managers, information is less organised and more fluid - departments of all kinds of functions are allowed to share information and workers are also required who are trained in understanding different types of information. An engineer who leads a design team must possess the capability of reading information about market conditions, so that he/she is able to make decisions on technical details autonomously. ElectriCo's pioneering manager cohort across different departments are encouraged to post ideas and lists of problems on the group's internal social platform. Other managers and workers are urged to leave comments on the topics raised. The entire plans of production are shaping a series of networking activities, which are constantly adjusted with the help of the group's newly deployed industrial database. In those pioneering sectors, the conventional procedures on temporal basis are being replaced with networked behaviours that produce all kinds of information in real time. Thanks to the new cloud computing technology, workers are able instantaneously to access to information on

production procedures in past, present and future. In sum, this network-based managing system has no respect for time.

In reality, such an “atemporal” approach of management is still rather confined in the operation at ElectriCo by the fact of absence of many smart technologies. In spite of this, the group’s orientation of “atemporal” working culture has significantly influenced the strategic goals of the HRM department. Under the precept of transforming the entire group into becoming a network-based working environment, the selected “talents” are supposed to be competent in handling with the fluid nature of knowledge and information. Hence, the selected core workers are required to be avail themselves with multiple expertise. Also, the particular practices adopted among those pioneering “talents”, such as online social networking platforms, is widely deployed throughout the group, despite most managers and cadres hardly ever using it. In addressing the leading cadres’ concerns on these new forms of technological contingencies, the HRM-based labour managing scheme of the whole group is shaped by the few future-oriented sectors.

Looking back to Miss F’s remark on this network working culture, it seems likely that the many core workers who were newly selected in recent years will soon encounter a bottleneck of competency, if ElectriCo strictly applies the HRM department’s “talent” standard to the group’s overall workforce. The group CCP would create a talent crisis for itself by purely pursuing the optimising of labour managing practice. In other words, even if the party apparatuses in the local state sector have demonstrated a managerialist image, party governing principles are still at odds with the outside environment of the market and technological innovation. In particular, when the changes made in response to the party’s business needs collide with the interest of stability among the cadre personnel, the party apparatuses tend interfere in forcefully in the manner of conservative politics. As a managerialist party, the CCP at the workplace level has always been seeking a managerial approach to balancing the politics of growth with the politics of labour harmony. In terms of labour management, the firm-level meritocratic approach of selection represents a compromise solution between those two. That

is, there is the absorbing of new skills and talents outside the Party-based establishment, for the purpose of adapting to the new market and technological environment, whilst simultaneously flattening the organisations' motivation towards new market trends, which is brought about by the influx of new core workforces with politically-related "merits". From being recruits to "talents", then co-opted into cadre cohorts, those new core workforces have to go through a mini-version of Chinese civil servant selection, which functions to consolidate the CCP's collective governance in workplaces.

One can only speculate what an "atemporal" future of new manufacturing technologies means to the CCPs' governance over labour management. So far, the CCP's success of stable ruling over local state industries lies in the party's flexible and pragmatist approaches in response to the ever-changing market environment. Will such an approach continually work in maintaining a stable cohort of a core workforce in the wake of the arrival of smart technologies and a highly fluid labour market? To answer this question, it necessary to consider further how new technologies are going to widen skill gaps among highly-educated workforces. The new computing technologies and "networked" culture are already changing the way how labour forces acquire new knowledge and skills - to be competent in manufacturing industry, a worker nowadays is required to master the fluidity of information in order to update skill in real time. It is now a major orientation for global high-end manufacturing industry that the production process is increasingly transitioning into be network-oriented. For those enterprises in China's local state sector, these trends could bring immense uncertainty to labour management in the future. In the face of the future of "atemporality", will the CCP be able and willing to uphold its pragmatic stance? Just as the ElectriCo HRM manager remarked on "industry 4.0":

"...Not sure in future, it will still be the state ⁶², or the state's computer 'resettles' us."

⁶² "State" (guojia) in casual spoken language can either mean "party-state" or any kind of party-related managers.

Summary of the chapter

In this chapter, CCP's flexible approaches of controlling labour management are conceptualised as four types of roles: manager, enforcer, facilitator and regulator. The empirical findings also suggest that differentiation of the form of control can be found at all levels of SOBG hierarchies. Such flexible choices of labour strategy can be understood as the CCP's pragmatism of seeking survival solution in the rapidly changing market environment. To survive from emerging market and technological contingencies, group-based party apparatuses constantly adjust their ideological stance between management and workforces. They also actively seek managerial solutions to re-create labour segmentation within organisations, in order to balance the SOBGs' dual interests of long-term profitability and labour harmony. In all, CCP's influence upon labour management can be seen as a form of authoritarian unitarism reinforced with managerial "toolbox", enabling CCP flexibly manage labour forces with a top-down manner so as to guarantee the groups' viability in face of market contingencies.

CCP's capability to sustain such flexible approaches in controlling labour management has also been discussed in this chapter. CCP's quest of SOE reform is unfinished, and the party's dilemma between efficiency and equality remains. New market and technological contingencies, such as the rise of data technology and automation, have already stirred worries of uncertainty among group cadres. The empirical findings suggest that CCP has intention to strengthen managerial control over various aspects of labour management with reinforcement of new technologies and managing techniques. However, the risk of such enduring managerialism in future is noteworthy in that the present core workforces will possibly become the new victims of party's labour resettling scheme.

Chapter 8 Conclusions and contributions

8.1 Introduction

Before I embarked on my journey to conduct fieldwork in SASAC and the first piloting case study, I was fairly baffled by the chaotic debates in existing bodies of literature. I conceptualised this indescribable force of dominance over labour arranging issues as “labour management”; and hoped that the pre-existing analytical framework of “strategic choice”, the seemingly closest framework to my own conception in terms of definition and range of matters, could help to shape my own approach regarding how to express the labour arrangement in Shanghai’s local state sector. But in fact, the true definition of such “management” was not certain until I had accomplished my pilot study. Before that, my research experience had long been disrupted by the interchangeable use of terms. There seemed to be an absence of vocabulary in the existing academic writings to guide the orientation of my empirical inquiry precisely. This raises the questions what do they (the respondents during the fieldwork) actually mean by “HRM”? Does this entail some acceptance of the western school of HRM? Do the seemingly managerial expressions, such as “human resource” and “strategy making”, also informally include political meanings? In general, it is extremely difficult to bridge the expression conveyed in academic works, either those business school or institutional/political writings, with the reality I experienced in the field. Everything seemed blended - business and political agenda, managerial and labour interests, and even managers speaking the Communist Party’s ideological jargon in the businesses’ round table sessions. As a consequence, I felt that recent narratives by researchers have failed to grasp the meanings and hence, the purpose of the rhetoric owing to their lack of a dictionary that could assist in the translation of these phenomena with accuracy. Given this mismatch, I realised that an alternative route into investigating the Party-state’s rhetoric was crucial, if light was to shed on what lay behind it.

At the end of an interviews with one of the managing cadres, who literally refused my further access to the organisation he worked for, largely due to our mutual

confusion when exchanging questions and answers, I asked one last question that came from nowhere - “what do you actually feel about doing this job? I mean from being a state-run factory director to all these (HRM jargons and practices)?” He replied to me, “I am just a follower - the party changed, and we change” That was the starting point for me to reassess the focus of my research questions. All those obscurely expressed reports, strategy guidelines and managing protocols can be trace back to their origin of CCP-driven governance. To explore further the bureaucratic and personnel arrangements in those state-owned organisations, I realised that it was not a question of to what extent SOEs are still attached to the party-state’s political agenda, but instead, it was a question of what are those departments and personnel’s location in the CCP’s grand scheme of corporate governance? The Party’s control is ubiquitous and sovereign. Hence, the interest lay in identifying the firm-based CCP approaches to the changing face of various labour arranging matters so as to elicit how it has managed to maintain its control. This inevitably also required exploration into the Party-state’s stance in terms of “managing labour” in general, over the last few decades. In addition, I hope that this work is able to contribute a new “language” for discussing the reality of Chinese SOEs’ labour arrangements in a way that transcends the business dominated tone. I have also argued in this research that these topics ought to be scrutinised with a contextually-grounded lenses, with the support of the knowledge from the discussions on the Chinese Party-state’s governance. Further discourse should also include reflexive thinking on capitalist managerialism, and how China’s social/political settlement will respond to emergent technological and market contingencies.

8.2 Summary of research aims and findings

8.2.1 Research questions and approach: locating the thesis in a fragmented body of literature

This thesis was set out to explore the dynamic of labour rule making in China’s local state sector. Taking the local state-owned business groups governed by SASAC as research cases, in particular, I was initially curious about those SOBGs’

underlying rationale for blending HR-oriented practices with their old ways of personnel management. Given Shanghai's distinct role in the overall state-owned economy of China (as discussed in Chapter 3), it was hoped that China's overall path of industrial relations would be illuminated by unveiling the Shanghai cases. In light of these concerns, the original aim of this research was centred on the SOBGs "labour management" - from the traditional ways of personnel management in the Maoist era to the current status of highly market-oriented managing practices. Do such changes signify a particular path of model shaping for China's state sector? To achieve these objectives,, the following research questions were posed:

- 1) What is the party and its affiliating apparatuses' roles in present day-to-day management? Have the party apparatuses retreated from market-oriented decision making in relation to labour matters as a result of ongoing SOE reform in the Shanghai region? If not, what kind of roles are they playing in the course of Shanghai's "national giants" building?
- 2) Who is/are making the rules for the jobs within those LSOEs? What kind of rule making mechanism is functioning? Has the maketisation procedure loosened the party's grasp on management and created room for autonomous voice representation?
- 3) How and to what extent is the LSOEs' "labour management" related to Shanghai's local politics? If this is the case, then the pro-market/pro-management forces will have been playing influencing roles in shaping the Party-state's local politics? Then, what becomes of particular interest is how great has this influence been and in what contexts?

The identification of these research questions came from the concern that existing literature regarding China's management and industrial relations seems to be unable to account for the complex dynamic taking place in Shanghai's state sector. In Chapter 2, I reviewed various assessing approaches adopted by a wide range of schools of academic writing. As I concluded in that chapter, the body of literature has undergone a series of paradigmatic shifts as China's social-political reforms

unfolded. It also emerged that there was also a lack of a shared body of literature for scrutinising the internal politics and shaping of market-oriented management at the organisational and industrial levels. The old debates on China's institutional trajectory of marrying Party-driven politics and market-oriented managing practices were seemingly diminishing, and empirical assessment on the forms of management and employment relations within transitioning workplaces have now become dominated by neoliberal-oriented writings from business schools. This research centres on business-related topics, such as the efficiency of HRM practices and the "Chinese model" of HRM. As for the topics in relation to workers' voice representation and labour relations, there are no academic accounts more effective than those produced by labour sociologists, who have attempted to paint a Marxian picture of China's exploitative managerialism and the shaping of new workforces.

All of these accounts have suggested the diverse nature of China's social-political settlement regarding labour issues. Such diversity exists within and across different regions, industrial sectors and in relation to the ownership types of organisations. With respect to management school writings, discussion in this regard has been long absent. The institutional approach, initially contributed to by industrial relations scholars, has appeared to be side-lined in recent years in favour of addressing China's rapid post-reform changes in the realm of legislation and the growing market economy from a management studies perspective. In the meantime, labour sociologists have used the term "regimes of production" (see Burawoy and Lee) or "politics of labour" (see Lüthje) to anchor their speculation regarding China's heterogeneous industrial relations and segmented workforces.

In Shanghai, where the local party authority has political responsibility to ensure both SOEs' business success and political prestige, the political and institutional settlement in the local state sector has its distinctive features when compared to the overall state sector (discussed in Chapter 3). My original research questions, as listed above, were based on the consensus regarding such heterogeneity. As a less explored realm, I proposed to use the term "labour management" for anchoring the research emphasis, which simultaneously highlights 1) the complex

segmentation of workforces within the sector (as suggested by “labour” rather than employees or “human resource”); and 2) the managerialist approach in pursuing business and political interests (as suggested by “management”). To uncover such a hybrid dynamic of “managing labour” and “politically-driven management” in an exploratory manner, I proposed a reflexive, case-based inquiring solution, which involved a combined use of qualitative methods and techniques (see Chapter 4). The proposed fieldwork procedures entailed a subsequent process of case selection, namely “casing” - by raising questions based on the data collected from the previous case(s), it was hoped that such an approach would provide a refined case selection compared to the multiple case studies based on the a priori theoretical constructs. The initial case selection for the pilot study was based on Kochan’s analytical framework of “strategic choice” (outlined in Chapter 4). That is, the key aspects of IR/HR practices listed in Kochan’s framework were drawn upon in my pilot research scheme. Such a methodological design was aimed at 1) testing the validity of a pre-existing framework, and looking for the possibility of refining it on the basis of reflexive rationale; and 2) to provide meaningful explanations on the grounds of Shanghai’s particular institutional conditions. In general, the methodological design of this research sought to provide insights that would help to build bridges between different bodies of literature in an exploratory manner.

The findings from the pilot study revealed an unexpected picture of labour management in Shanghai’s local state sector - there is even more extensive diversity within organisations than was anticipated. The SOBGs are complex compounds of various forms of economic entities, in which labour managing styles are unevenly determined by their respective institutional and market conditions. In addition, it was found that the Party-state’s influence is ubiquitous within and across those organisations. Party cadres and various forms of apparatuses are seemingly able to engage with business matters in highly flexible ways - labour strategies are pragmatically governed by Party-led governing approaches and rhetoric, whilst managerial personnel often possess various kinds of political backgrounds. In light of these unexpected (and also exciting) findings from the pilot experience, I realised that it was necessary to refine the emphasis of this

research from the vaguely conceptualised institution of “labour management” to the Party’s governing methods regarding workforces. An additional research question also emerged: how does the party-state change its roles in LSOEs’ labour management and what does that mean for the CCP’s governance over business. To sum up, in order to study labour management (no matter whether from a managerial or institutional perspective), we need firstly to investigate how the party operates.

8.2.2 Empirical findings

Overview on case studies

The two case studies have revealed different pictures regarding the investigated SOBGs’ labour management. In ElectriCo, the corporatised successor of Shanghai’s historically long-standing electromechanical engineering industry, the group-based CCP opted to undertake an incremental path to labour organising transition. Resorting to deploying HR-oriented managing system throughout the entire group hierarchy, the group has sought to forge new competent workforces by blending old and new personnel. The group CCP avidly participates in the member organisations’ day-to-day management with the guise of HR-oriented rhetoric. In terms of employment relations, management and ACFTU seek to make collective agreements that are largely based on pro-business interests. The collective contracts are usually settled with little labour voice and the ACFTU apparatuses in ElectriCo merely play consulting roles in relation to the group’s labour arranging decisions. By deploying “talent-based” practices of training and promotion, the group hopes to select capable employees on the basis of merit. There has already been a sizeable cohort of new long-term, skilful workforces shaped thanks to the group’s extensively deployed HR-oriented managing practices. However, the in-depth inquiry into the group’s high-level HR decisions found that the group’s long-standing party cadres are unlikely to be willing to be assessed by the quantified approaches proposed by the HRM department.

In another case study conducted in TexCo, the corporation inheriting from the state industry that defined Shanghai’s former role of textile manufacturing

powerhouse in the Maoist era, the group CCP has undertaken a very different trajectory of transformation. The current business group consists of the most valuable state assets that are governed by the former state-run bureau of the textile industry. As a result of large-scale of downsizing and de-centralising reform, enforced by the local CCP in the early 1990s, there have been over 48,000 state workers laid-off or driven away from their posts through various resettlement channels. Today's group still retains some of the old types of production during the old days of state-run bureau, such as fibre and garment production. The majority of TexCo's profit comes from its trading business, even though the group claims to have shifted its orientation to the high value-added business sectors, such as high-end fibre production and the fashion designing industry. In terms of labour management, there are fewer HR-related influences in the rule making process when compared to ElectriCo - the group's business interests are often subject to making compromises with the group CCP's political concerns. Despite this group seeming to have an agenda aimed at forging a globally competent corporation, which apparently would require considerable effort in deploying pro-business labour managing practices, TexCo takes a conservative approach to HR-oriented practices, with only a handful of workplaces geared towards high value production undertaking them as piloting projects. The issues in relation to labour configuration are largely settled through informal negotiations between the different party apparatuses. In light of such a combined agenda, TexCo's selection of new long-term core workers weighs heavily on non-skill-related traits, such as loyalty and seniority in the corporation.

SOBGs as the party's governing solution to market contingencies

As the case studies have revealed, both business groups have dual interests in relation to their practice of configuring new labour forces. It is these groups' diverging trajectories of transforming history that have forged their present managing ways and purposes. The case studies have also revealed the CCP's sovereign influence upon corporate governance, strategy making and even day-to-day managing matters. Ontologically speaking, it could be argued that the forming of these SOBGs was the Party's governing solution in response to

emergent market contingencies. No matter how the CCP apparatuses tackle their tasks of transforming state industries, they always have to balance business interests and the interest of maintaining labour harmony. Such a seeming paradox can only be achieved through creating supra-organisational institutions, like SOBGs and arriving at settlements on the best way forward through reaching compromise. In other words, rather than being merely corporatised organisations, these state-owned groups, by their very nature, are CCP innovations in state industry governance in the wake of the arrival of the market economy. As such, the study on these corporations should be considered as synonymous with the Party-led institution of state-owned industries.

In light of such a situation, the SOBGs, as the Party's new form of governing bodies, may seem an enigma in terms of their ways of organising labour management - they can appear to be highly top-down organised certain matters, whilst also being seemingly huge collectives of organisations, in which the components are loosely connected. I conceptualised such an elusive phenomenon as a "hierarchy-network duality" in this study. Within the SOBGs, the party apparatuses flexibly engage in various labour managing matters with a wide range of governing options, which is because the Party has a combined interest of seeking effective long-term and short-term business strategies underpinning its decision to form business groups. Consequently, in response to the existing debate on "flexible firms", I pointed out that it is crucial to understand SOBGs' managing practices from the CCP's perspective of state sector governing. That is, such a perspective enables us to illuminate the nature of "supra-organisational" institutions in the search for meaningful explanations regarding the mixed strategies involving complex interests in the particular context of Shanghai's local state sector.

Group-level CCP's flexible approaches in responding to labour diversity

In the discussion chapter, such complexity has been further elaborated upon by way of discussing four types of conceptualised roles that the CCP apparatuses play in various labour managing matters. Regarding the nature of the SOBGs' "hierarchy", some findings from the case studies have suggested that the group

CCPs may directly engage with the LR reshaping practices, such as enforcedly deploying the state's scheme of collective consultation and cutting the number of "agency workers", in accordance with the local CCP's labour plans. As such, I have conceptualised such roles as "Enforcers" (section 7.2, Chapter 7), with these labour managing arrangements being made through the group CCP apparatuses' duly fulfilling their political missions. They are assigned tasks in various ways regarding Party governance, including direct decrees, guidelines, roundtable sessions and the party-state's "Five-Year Plan". Driven by such Party-state imperatives, different types of apparatuses often work for common goals with little divergence in opinion. Consequently, should one observe these particular issues, the SOBGs may appear to be "hierarchies", in which the party-state deploys its strong political control over labour arrangements. In addition, such "hierarchical" features could also reflect group CCPs' approaches to deploying HR-oriented managing practices. Conceptualised as the role of "Manager" (section 7.3, Chapter 7), the firm-level CCP might be deeply involved in the groups' introducing and shaping process of HRM. Both case studies (especially in the ElectriCo case) have suggested that the cadre personnel may undertake day-to-day managerial responsibilities by using HR-oriented rhetoric and also doing so in the management practices. Hence, it is possible to see the CCP playing a pivotal role in building up the SOBGs' hierarchical system of HR-oriented management.

However, regarding the nature of SOBGs' "network", other findings from the case studies have suggested that the CCP engages with some of LR matters with distant but effective approaches. To deal with the increasingly diverse organisational formations, these SOBGs have sought "innovative" ways of union organising in order to maintain the Party's control over labour managing matters. Without concrete guidance on what and how to operate, the union and managerial cadres in the groups' member organisations were left to figure out labour representing and bargaining solutions on the basis of their own conditions. As it was conceptualised in the discussion chapter (subsection 7.2.4), the CCP at headquarters hopes to play such "regulator" roles so as to distance itself from direct involvement in the process of settling rules of labour arrangements with managers in the branches. They also hope that those "institutional innovations" in

union organising will generate codified regulations to be added to the group's collective consultation rulebook, so as to reduce the need to use political means for intervening in labour rule making in member organisations. In subsection 7.3.1, I also discussed CCP's "Facilitator" approach to deploying HR-oriented managing practices in the TexCo case. In contrast to the "Manager" role that ElectriCo's CCP plays, TexCo only permits HRM personnel to lead a handful of forefront businesses with a piloting purpose. Its member firms also have high managerial autonomy in determining their own managing practices to suit their own business conditions. All of these findings suggest that SOBGs may represent a picture of a collective of state-owned entities that are loosely organised, but somehow gathered within CCP's power sphere.

Configuring new core workforces for the party's flexible firms

To sum up, the CCP's changing face of labour management derives from the Party's dual agenda of: a) configuring a new core workforce in the wake of new market and technological contingents; and b) minimising potential political risk caused by labour reconfiguration. As SOBGs move their strategic orientation to the high value-added, forefront business sectors, there is an increasing need to forge a new long-term workforce, who are professionally competent as well as politically trustworthy. At the same time, both case studies have suggested that SOBGs still have tremendous need to retain a considerable size of "periphery" workforce. These workers include those who are less skilful and highly disposable, as well as those long-standing workers who have been guaranteed high job security by their employers. Two seemingly contradictory staffing strategies, those of seeking "functional flexibility" and "numerical flexibility", co-exist in both cases. The headquarters' CCP apparatuses carefully oversee the groups' portfolio of businesses, and pragmatically choose optimal solutions to engage with labour managing matters. For the CCP apparatuses at all levels, both business and labour harmony are political missions to be accomplished.

8.3 Theoretical contributions and implications

8.3.1 CCP's governance over labour management - a shared body of literature

As it was explicated in the methodological chapter, the study's focus on the CCP's governance over SOBGs was derived from the unexpected findings from the pilot studies, i.e. that both the rhetoric and practices that SOBGs adopt in labour managing configuration are embedded in the Party's pragmatic controlling approaches. Such findings also illuminate an entry point for explaining the party's ubiquitous existence in businesses, which has long been an unsolved conundrum debated by scholars from all kinds of disciplinary backgrounds. In this research, I attempted to point out the importance of bridging two bodies of literature that have barely been jointly discussed in previous research - the literature on China's party-state governing mechanisms and the general literature on China's evolving labour management.

Firstly, the findings from empirical inquiries suggested that the labour managing arrangements in both cases are largely the results of the group-level CCP's operation of Party guidelines and decrees in relation to labour configuration. Specifically, regarding the employment relations reshaping within the groups' member organisations, managers and union officials' moves are governed by the Party-state's various forms of directives, including the "Five-Year Plan", the tripartite-based negotiating mechanism between the Party apparatuses on both the management and labour side as well as the national project of selecting capable "talents". The case studies have further elicited that state-driven projects are operated through the CCP's task-based system of governance, whereby specific tasks are set for individual cadre personnel, rather than it directly engaging with the implementation process, the headquarters-level CCP apparatuses are able to oversee and supervise at a distance those labour managing practices operated at the grass-roots level. Regardless of the cadres' types of profession, their capacity for completing political tasks remains a significant driver in terms of determining their career inside the Party-state system.

These findings also brought another discussion into the analysis of this study regarding what does it mean to be “cadres” in SOBGs? Cadre, as a political term in China’s socialist rhetoric, is widely applied to the managerial/administrative and senior technological personnel in the Party-state’s organisations. In both cases, “cadres” are often used to stand for the core workers who have managerial responsibilities. These groups’ agenda of forging new core workforces also overlap with the group CCP’s political process of selecting new cadre personnel. Evidence in both cases shows that the capable managerial and technical personnel at grass-roots levels have considerable chances to be included in each groups’ potential cadre cohort. The CCP apparatuses either integrate themselves into the HR-oriented system (see *ElectriCo’s* case) or intervene in the selecting process (see *TexCo’s* case). In other words, the group CCPs seek to sustain the Party’s traditional ways of cadre selection with the inclusion of managerial language.

I have provided analysis from the CCP’s perspective to make sense of these hybrid approaches. There has already been substantial academic work engaging with the bureaucratic system of China’s party state ⁶³. However, few scholars have applied this knowledge to labour managing studies as a pivotal component of the analysis. It is important to acknowledge that the group-level cadres see both business interests and labour stability as political tasks. That is to say, these SOBGs may appear to be wearing a corporate-styled skin and operated with a corporate governance structure, but the ultimate decisions regarding labour arrangements would appear to be generated from the CCP-dominated institutions. As was explained in the discussion chapter (subsection 6.3.2), both groups formulate their core-workforce selecting strategies under the guidance of a national-level “talent” scheme. It is a process full of closed-door negotiation and discussion among Party cadres from all levels of the SOBGs. Also, employment relations arrangements are settled through various forms of formal and informal negotiations between the

⁶³ See Pieke’s ethnographical study on the Party’s cadre training. He found that the capable cadre personnel are those who are better equipped with professional skills as well as internalised with a sense of conformity and loyalty. Also, Brødsgaard’s institutional inquiry (2002) into the “nomenklatura” system in Chinese party-state organisations found that the party retains significant influence over market-oriented businesses through cadre personnel management.

different apparatuses (such as the within-organisational tripartite system unveiled in Chapter 6, regarding the TexCo case study). In general, as Pieke (2009) summed up in his book on the CCP's governance and elite reproduction, "socialism" for China's party apparatuses is a form of governance instead of an ideology-driven political project. In addition, the Party operates its governance as practices of management, rather than politics. It is crucial to introduce such insights into future research in relation to China's labour management.

8.3.2 China's authoritarian unitarism

In this research, the two case studies have unveiled Shanghai's unique role in the Party-state's overall economic landscape:

- 1) They are tasked to represent the state's most efficient and advanced industrial capabilities. Hence, successful cases of reform are treated as exemplars for the counterparts in other regions, or even for SOEs at the central level.
- 2) They contribute a considerable proportion of local revenues. Also, their business strategies are to a great extent determined by the local political agenda, whereby they have an important as the drivers of many local development schemes.
- 3) Labour configuration is highly diverse within and across the workforces of these SOBGs, with them being significantly segmented in terms of their income, security and opportunities to be promoted.

Given such complex conditions, the SOBGs seek to realise various business interests flexibly by setting combined staffing strategies. High-skilled, long-term workers and periphery, contingent workers widely co-exist in the groups' member organisations. Accordingly, both "mechanistic" and "fluid" approaches of labour managing practices are pragmatically chosen and deployed by the group CCPs. In this research, Shanghai's state sector has provided a lens for scrutinising the CCP's governing ways overall regarding a variety of labour arrangements. The Party's agenda on configuring workforce has never been uniform - it often varies across

different business sectors. It also strives to prevent any potential unrest caused by changes to labour relations. To conclude, Shanghai's local state sector embodies a relatively effective pattern of the Chinese Party-state's authoritarian unitarism - marrying the establishment of Party-state governance with managerial rhetoric and practices (primarily HRM-oriented), the group CCPs treat all kinds of labour-related issues as managerial matters. There is little evidence suggesting any signs of pluralism.

The thesis has also discussed the group CCPs' meritocratic approach to selecting core workers. I contend that such a "talent-based" meritocracy is the CCP's new traditionalist approach to improve workforce efficiency without risking labour disharmony. The testing and evaluating ways of selection within the SOBGs emulate the Party-state's civil servant selecting system. Both workers' professional skills and "redness" will be tested. Also, the newly selected managerial and technical personnel are granted Party-state system titles, meaning that they will be treated as members of the groups' cadre cohorts. These practices largely overlap with the party's old ways of cadre selection, which are widely perceived as a repackaged "Bianzhi" system (the Party-state's old personnel compiling system).

One can only speculate as to whether such a form of pragmatism can be sustained. Looking back to the transitioning history of labour settlements in these SOBGs, it could be argued that the Shanghai's local state sector has undergone a compressed evolving history of the industrial relations systems in the European context. From political monolithism in the pre-reform era to the present managerial supremacy at all levels of the SOBGs, the group CCPs have had to endure dilemmas and challenges in relation to labour-management collision that European countries experienced throughout the entire post-war years. Moreover, as these groups aim to break into high value-added businesses, the challenges brought by emergent market and technological contingencies have become increasingly intense in recent years. It would be no surprise if those groups were to initiate new waves of labour reconfiguration. It can also be foreseen that the CCP's attempts to maintain "flexible organisations" will most likely become even more challenging.

8.4 Reflections and future orientation

8.4.1 Still ongoing reform

Today, SOE reform is still an unfinished quest for the Party-state. Haunted by industrial overcapacity and high corporate debt, China's state sector is still striving to find a balance between efficiency and social stability. "Letting-go" practices, such as job cuts and enforced closure, are still crucial for alleviating the Party-state's financial burden, but the risks of unemployment, open collision and unrest are obviously substantial challenges to the Party apparatuses. The flexible approaches adopted by the Shanghai local state sector are hailed by the party's mouthpiece media as the nation's exemplars in terms of "institutional innovation". The Financial Times reported that the state watchdog at the central level is now looking at Shanghai's experience and hoping to apply similar approaches to central SOEs as well as those at the local level in other regions.

Despite being regarded as a success in balancing business interests and fulfilling a stability agenda in the "Shanghai model", the state is still finding it difficult to replicate it elsewhere. By controlling LGFPs, or "managing capital" (*guanliziben*), Shanghai's local CCP is able to reintegrate quality, profitable state assets through stake selling and stock market listing. For other regions, where there is lack of well-organised LGFPs, it is not yet realistic to distance the Party's direct control away from firm-level decision making, through "managing capital". Also, there is substantial diversity across regions in terms of SOE business types. That is, Shanghai SASAC's targeted treatment - classifying local SOBGs into three types: "competitive", "functional", and "public", might be difficult to replicate in other regions, since they do not have equivalent numbers of "competitive" SOEs that have been proactively created. As a result, the Party is not particularly enthusiastic about the idea of promoting Shanghai's "Temasek"-like solution to capital reform. It is also partly out of the concern that the other localities would interpret such approaches as merely pushing SOEs into the market.

In addition, the latest moves by the central CCP make the future path of SOE reform even more unpredictable than before, as a process of re-centralisation appears to

be on its agenda. Regarding which, in Oct 2016, Xi's government issued a directive asking party apparatuses to strengthen their grasp over SOEs. The directive itself addressed SOE reform issues in an equivocal way, whereby, as usual, there is lack of clarity as to what such "strengthening" entails. However, as the directive paper includes the term "the Party's control over enterprises" (dangguanqiye), it has been widely interpreted as the central authority's intention to strengthen the Party apparatuses' direct control over managing matters at the firm level. There is speculation that the party's U-turn on reform might have something to do with the anti-corruption movement launched by Xi's administration. However, one can never give a precise forecast of the CCP's next move when seemingly contradictory visions co-exist on the table, despite the Singaporean "Temasek" model working well in Shanghai.

8.4.2 "Managing labour" – how far will it go?

In this thesis, it has been conceptualised that SOBGs' have flexible approaches to labour managing matters, in terms of the CCP's strategic choices, when responding to the ever-changing technological and market contingencies. The case studies have elicited that the CCPs in SOBGs have resorted to meritocratic approaches to selecting the groups' new core workers from a highly diverse and segmented group workforce. Emulating the Party-state's meritocratic hierarchy of civil servant selection, such a strategic choice is perceived as a fair and effective way, for it involves drawing on people from all walks of life to create a new elite cadre cohort. Especially for the groups looking at the high value-added market, there is an urgent need for configuring the labour force on the grounds of institutionalised selecting mechanisms rather than through political decisions.

It can only be speculated how persistent China's authoritarian unitarism will be. Its effectiveness largely derives from the absence of labour democracy in China's one party state. In a political system that translates all kinds of politics into managerial issues, the HR-oriented meritocracy can be easily adapted to the Party-state's transitioning institutions. During the party-state's "compressed" history of IR system transformation (see the detailed discussion in subsection 6.4.3), the

CCP's managerial approaches to reshaping skilful workforces has often been driven by the political agenda of downsizing significantly the overall number of state workers. Unlike European contexts, where a voice expressing channel is considered as a key component in the IR system, labour's voice has long been suppressed by the Party-state. The impacts from market liberalisation since the 1980s have not led to the replacement of the Party-state's reign over the state economy. In fact, the market-oriented managing approaches have reinforced such industrial unitarism, by enabling the CCP to adopt more flexible approaches that have led to the strengthening of its authoritarian control over labour managing matters in the workplace.

Nowadays, the CCP's governing agenda entails a wide range of seemingly contradictory issues, from continuous economic growth to income equality; building a "fleet" of national corporate behemoths to gain global business success as well as maintaining labour stability among state workforces. So far, Shanghai's experience implies that meritocratic approaches could enable the party to resolve such dilemmas on a temporary basis. However, it is still difficult to predict what kind of impact the imminent new challenges of technological and market changes (see the example discussed in subsection 6.4.4) will bring to the Party-led labour management - a new unitarist leviathan augmented by new technology or potential turbulence caused by a more precarious, insecure labour market for skilful workforces? By the time that I was approaching the end of writing this thesis in 2016, the social-political shifts around the world that were coming to the fore gave me the impression that these were beginning to mirror the situation in China. In the political spectrum of western democracies, there is now the absence of a progressive, critical left-wing force, which could address the issues of workforces' powerlessness in the wake of contagious managerialism. Industrial democracy is also facing an increasing risk in the wake of rising automation and artificial intelligence technologies. In the UK, the Conservative government has set out to build a meritocratic society with the guise of resurrecting "One-Nation" conservatism - in fact a pragmatic approach to embrace simultaneously a variety of conventional left- and right-wing political agendas. To what extent is Tories' meritocracy different from that of the CCP? Would labour forces deserve what they

get in a system purportedly only judging by workers' "merits"? In such a unitarist IR system, who would possess the power to control technology and to make decisions in relation to "managing labour"? Can we expect an organised opposition against such a hierarchical managerialism? In a world where pragmatism prevails in traditional right-wing politics, "managing labour" should be questioned not only in China, but also in the rest of the capitalist world. Especially in the wake of a Trumpian era, when populist rhetoric is replacing equality-driven ideologies and policy making is infected by the explicit rationales of corporate businesses, the above questions need addressing with progressive solutions.

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17 May 2017

尊敬的领导：

本研究欲选取三家在上海有代表性的地方国资企业作为个案研究对象，分析地方国企在国资转型过程中，企业人力资源战略的转型模式。由于上海国资体量巨大、历史悠久，且发展过程充满坎坷，受制于制度和市场等多方面因素，难以用现有人力资源或组织理论加以解释。因此本研究欲从企业制度变迁的角度看待国资环境下现代人力资源管理的发展及其背后逻辑，试图探索可能在中国出现的独特人力资源管理模式。

计划选取正处于人力资源管理转型的企业，以转型为切入点，来分析企业及其人力资源和劳动部门应对变化的行为模式。计划采用文献法、访谈以及参与式研究三种方法来搜集资料。具体操作步骤如下：

时间：2014. 5. 15- 2014. 7. 15 （暂定）

选取企业：上海纺织、百联集团 （暂定，个案选取思路依照行业划分，此前已经对重工业制造部门进行了调研，期望继续考察轻工业部门以及贸易零售业。具体方案介时可依情况调整）

文献法

1. 企业历史转型资料
2. 关于当下人力资源转型的行政文件及办法措施
3. 人力资源基本情况；职工人口统计

参与式调查

希望以实习的名义，参与进人力资源部门的决策过程，实地观察从评估到政策制定的细节，接触到第一手的相关材料，并希望能参与或旁听涉及人事或人才战略发展的会议或学习活动。

访谈

访谈将针对负责人事的领导干部、人力资源部经理以及工会领导干部。涉及问题涵盖人事制度历史沿革，以及从人事管理向现代人力资源管理制度迈进过程中所面临的困难和挑战。并询问当下国资改革背景下，对于人力资源工作的看法。具体问题见访谈纲要。

所有调研过程中获得的信息及资料，包括文字摘录、图片及音频资料，将仅用于研究目的；所有公司名称、人名、地名以及部门名称将予以匿名处理；研究成果可能包括学位论文以及学术出版，将同所涉及企业分享。以上声明受巴斯大学学术伦理委员会监督。

访谈纲要

1. 简要描述工作内容以及岗位职责
2. 近几年来工作性质发生的变化
 - 劳动力政策发生了哪些调整
 - 从旧时的人事管理到现在的人力资源管理，最显著的变化反映在哪些方面？
 - 历次转型过程中上级领导对企业人力资源管理提出了哪些新要求？
3. 人才发展与群众参与
 - 人才战略部署是否已经契合企业的组织发展？如何应对当下面临的调整？
 - 当下人力资源管理实践中是否存在由下至上的人才反馈机制？
 - 企业进行战略调整时，信息如何向各级群众传达？
4. 工会的作用
 - 在以往的转型历程中，工会如何与人事部门合作？
 - 在“十二五规划”指导下，工会将如何配合人力资源部门？以及同时如何保障劳工权益？

调研过程中若有不便, 敬请批评指正。

此致

敬礼
应辰，博士生在读
巴斯大学

Appendix 2 Case evaluation - ElectriCo

<div> <div></div> <div><i>Managing levels</i></div> </div> <div><i>Items</i></div>		Senior cadres	Middle managing/technical personnel	Labour market workers	Agency workers
Workforce restructuring	Redeployment/laying-off				
	Dispute/stability control				
	Reconfiguration of skilled "talents"				
Labour relations	Rights protection/voice representation				
	Contractual procedures				
	Contractual contents				
	Wage, working hours				
Market-oriented management	Performance control				
	Bonus payment				
	Skill training				
	Promotion/internal mobility				
	Selection				

Appendix 3 Case evaluation - TexCo

<div> <div></div> <div><i>Managing levels</i></div> </div> <div><i>Items</i></div>		Senior cadres	Middle managing/technical personnel	Labour market workers	Agency workers
Workforce restructuring	Redeployment/laying-off				
	Dispute/stability control				
	Reconfiguration of skilled "talents"				
Labour relations	Rights protection/voice representation				
	Contractual procedures				
	Contractual contents				
	Wage, working hours				
Market-oriented management	Performance control				
	Bonus payment				
	Skill training				
	Promotion/internal mobility				
	Selection				

Appendix 4 List of Interviewees' information

	INTERVIEWEES	CURRENT JOBS	INTERVIEW TOPICS	BRIEF HISTORY OF CAREER
ELECTRICO	Mrs. Q	The chief director of cadre managing office	Skill training for cadre managers; tripartite system of collective consultation; union organising	Used to be the ACFTU officer of the turbine factory during 1990s; joined ElectriCo headquarters in 2005, and was initially in charge of union officers' training courses
	Mrs. F	Deputy director of the HQ's cadre managing office, specifically responsible of supervising HRM department	HR-oriented practices; ElectriCo's history of implementing HRM practices;	Mrs F started her career in the former Associates Corporation's personnel management office. In 2001, she was one of the nine selected cadre officers who were sent to Canada for HRM training. She has been on her current post at headquarters since the founding of the group in 2004.
	Mr. J	The manager of the HQ's HRM department	HR-oriented practices; "talent" selection; HRM department's relation with party apparatuses	Graduated from one of the top universities based in Shanghai, and recruited through the group's campus hiring scheme in 2005. Accomplished his period of apprenticeship and job rotating in 2014, Mr. J was instantly promoted to be the manager of the department thanks to his outstanding performance.

Ms. L	The deputy manager of the HQ's HRM department	HR-oriented practices; "talent" selection; HRM department's relation with party apparatuses	Graduated from one of the top universities based in Shanghai; had initially worked in the holding company's HRM department as contracted employee. Ms. L was selected to be a member of ElectriCo's young cadre cohort in 2012 for her excellent performance and active presence in the holding company's party affairs.
Mr. LX	Deputy director in HQ's cadre managing office - specifically responsible of training and assessment of cadre managers	HR-oriented practices; HR-oriented management on cadre cohort	One of the earliest trainees sent to Canada for HRM trainings during 1990s; Mr. LX was also the first manager of HQ's HRM manager. Before being transferred to cadre managing office in 2010, Mr. LX was in charge of creating the group's currently functioning performance assessing system.
Mr. C	Deputy director in HQ's cadre managing office - specifically responsible of managing and supervising senior cadre cohort	Cadre management; "talent selection"; old workers "resettling"	Mr. C has worked in ElectriCo group for over twenty years. Started his career as a director of one of supplying factories, he was directly promoted to HQ level when the group was organised in 2004. Since then, Mr.C's main job has been to strengthen the group's cadre cohort by partnering with the ElectriCo party committee.
Mr. G	The head of ElectriCo ACFTU	ACFTU's relation with HRM department; collective consultation; union organising at grass root level	Mr. G has been a ACFTU veteran since the age of state-run bureau. Initially worked in the turbine factory ACFTU, the largest union organisation within ElectriCo hierarchy, he was transferred to HQ as the factory was integrated into

			the newly found holding company in 2005.
Mr. M	The head of holding company ACFTU	ACFTU's relation with HRM department; collective consultation; union organising at grass root level	Mr. M was allocated to the current post in accordance to the HQ ACFTU's will. Before that, he was the union leader of Mechatronic LLC.
Ms. J	HRM manager, in charge of performance assessment	HRM practices; relations with cadre leaders; talent selection	Entered ElectriCo through the group's campus recruiting scheme in 2009, initially worked in HRM department of Mechatronic LLC; had a master degree of human resource management; still in her job rotating year with HQ cadre managers' supervision
Mr. S	HRM team leader, in charge of the piloting project of "competency model"	HRM practices; relations with cadre leaders; talent selection	Graduated from a German business school; previously worked in another SOBG's joint venture. After her contract expired, Mr. S quit her job after contract expired, and was hired by ElectriCo through internal recruitment within Shanghai local state-sector.
Mr. N	HRM manager of the holding company	HRM practices; relations with cadre leaders; talent selection	Entered the holding company through 2005 campus recruiting scheme; Mr. N is the holding company's first HRM manager who has fully accomplished recruits' apprenticeship and job rotating scheme.

	Ms. SL	Deputy HRM manager of the holding company, specifically responsible of training	HRM practices; relations with cadre leaders; talent selection	Entered the holding company through 2006 campus recruiting scheme; had working experiences in various ElectriCo companies, and specialised in arranging training courses.
TEXCO	Mr. Z	The chief director of cadre managing office	TexCo's transforming history; skillful workforces' trainings; collective consultaion	Mr Z is the youngest cadre managing director since TexCo's pre-reform years. Entered TexCo in 2004, he initially took part in the groups's project of setting up tripartite form of collective consultation. Before his current job, Mr Z rotated across various newly formed companies where he took charge of leading their party committees.
	Mr. Y	Deputy director of cadre managing office, specifically responsible of deploying collective consultation and organising new forms of unions	TexCo's transforming history; collective consultaion; union organising at grass root	Mr. Y is a veteran leader of TexCo ACFTU. Formerly leading ACFTU in one of the biggest TexCo garment factories, Mr. Y gained his reputation for his efficient and flexible approach in dealing with the factory's worker resettling mission. The main focus of his current job is to strengthen uniformity of leading cadres at various TexCo workplaces in the course of exploring "innovative" union organising solutions.
	Mr. L	The director of personnel managing office at HQ, specifically responsible of	Working conditions of dispatched labour forces; collective consultaion;	Before his current job in personnel department, Mr. L has worked in TexCo ACFTU for seven years - mainly in charge of solving labour disputes. He was transferred

	dispatched labour forces	union organising at grass root	from union to HQ's personnel managing office in 2009, when the new labour law was enacted.
Mrs. X	Deputy director of personnel managing office at HQ, specifically responsible of resettled workforces	Old workforce resettling; severance package; labour disputes	Mrs. X has been worked in TexCo personnel managing office since the age of industrial bureau. Given her twelve years of experiences on negotiating severance deal, she was promoted to be the deputy director in 2011.
Mrs. XU	Deputy director of cadre managing office, specifically responsible of performance assessment	HRM practices; talent selection	Mrs XU was one of the few graduate recruits who were hired through TexCo's campus recruiting scheme in 2004. Graduated from the university that has partnership relation with TexCo, Mrs XU started her internship in TexCo in her third undergraduate year. She initially worked in TexCo's newly formed fashion brand company, then promoted to HQ for her outstanding performance.
Mr. ZY	Deputy director of cadre managing office, specifically responsible of supervising HR practices deployment in TexCo's fashion businesses	HRM practices; talent selection; TexCo's future-oriented business sectors	Mr. ZY was one of the few graduate recruits who were directly hired by HQ. He has a BA degree of garment designing and a MA degree of fahion management in the university that TexCo partners with. Started his career in 2006 as a HR manager, Mr. ZY has been tasked to lead several HR related projects in ElectriCo's fashion business sectors. His current job is to supervise HRM projects deployed in those workplaces.

Mr. W	Deputy director of cadre managing office, specifically responsible of supervising HR practices deployment in TexCo's high-end fibre manufacturing businesses	HRM practices; talent selection; TexCo's future-oriented business sectors	Previously worked as tenured engineer in TexCo's research institute prior to the forming of business group in 2004. Since the research institute was re-organised and integrated into TexCo HQ, Mr W was transferred to HQ and has been rotated across several managerial posts.
Mrs. W	Secretary of party general office, was tasked to supervise the overall status of HRM deployment in TexCo's future-oriented businesses	HRM practices; TexCo's future-oriented business sectors; relations	Mrs. W has been at her current post since the forming of group in 2004. As a standing technocrat at HQ, she is usually assigned with various types of tasks.
Mr. GH	Head of TexCo ACFTU	ACFTU's relation with HRM department; collective consultation; union organising at grass root level	Mr. GH led the laying-off project in early 2000s, which resulted in over 800 garment manufacturing workers resettled or early retired. Such experiences also paved his way to become the head of group ACFTU.
Mrs. A	Head of ACFTU at Industrial Group C	ACFTU's relation with HRM department; collective consultation; union organising at grass root level	Mrs A has worked in various ACFTU apparatuses within TexCo hierarchy for 13 years. She was appointed to the current post by following HQ's personnel arrangement in 2012.

Mr. LF	General manager of Industrial Group C	TexCo's trade businesses; HRM deployment within TexCo's traditional pillar businesses; workforce segmentation	Mr. LF was initially the director of one of the major TexCo garment factories!. After being enforced to close in early 2000s, Mr. LF has been transferred to multiple posts within Shanghai local state sector. He also finished his MBA degree during the years of being away TexCo. In 2007, he came back to TexCo in accordance with SASAC's personnel arrangement. Given his rich experiences in garment trading businesses, he was appointed to manage the newly formed Industrial Corporation C.
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